

FISCAL IMPLICATIONS OF THE LOCAL GOVERNMENT CODE OF 1991*

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INTRODUCTION

Ushering in a new era of local governance, the Local Government Code (LGC) signals the transfer from the national government to local government units (LGUs) of primary responsibility for provision and delivery of basic services and performance of certain regulatory functions. Specifically, the Code reassigns to the local governments certain powers, functions and responsibilities heretofore discharged by such national government agencies (NGAs) as Department of Agriculture (DA), Department of Health (DOH), Department of Social Welfare and Development (DSWD), Department of Environment and Natural Resources (DENR), Department of Public Works and Highways (DPWH), Department of Tourism (DOT) and Department of Education, Culture and Sports (DECS).

Decentralization of powers, functions and responsibilities from the national to local government will lack meaning without financial independence of the LGUs. With transfer of expenditure responsibilities to LGUs, the Code in principle provides the resources needed to effectively discharge their augmented authorities. The Code ordains a higher share in national taxes with greater certainty for LGUs and grants them broader taxing and revenue-raising powers relative to earlier pertinent legislation like Presidential Decree 231 (Local Tax Code).

This study aims to analyze some of the provisions of the 1991 LGC as these impact on the financial position of LGUs as well as to highlight their other fiscal consequences. The approach followed was to simulate the fiscal repercussions of Code provisions — singly and in combination with one another — and to compare the results thus obtained with the situation that would prevail if the Code were not effected. Where generalizations

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cannot be made with certainty, this paper presents illustrative examples based on actual data from specific LGUs to accentuate certain ramifications of the Code. In doing so, these LGUs were assumed to exhibit the same level of collection efficiency before and after Code implementation. Likewise, the tax base of any given LGU was assumed to increase at a rate equal to its historical growth rate.

This exercise will be hopefully useful in defining the strengths and weaknesses of the new Code, leading eventually to a smoother implementation of its provisions.

INTERNAL REVENUE ALLOTMENT (IRA)

Share of IRA in National Internal Revenue Taxes

Provisions

The 1991 LGC ordains LGUs are entitled to a share in gross national internal revenue taxes, based on collections in the third year preceding the current one, at a rate of 30 percent in the first year of implementation, 35 percent in second year and 40 percent in third year and every year afterwards. However, if the national government incurs an unmanageable public sector deficit, the Code provides IRA may be reduced but in no case shall the allotment be less than 30 percent of gross Bureau of Internal Revenue (BIR) tax receipts.

On the other hand, Presidential Decree (PD) 1741 prescribed the share of local governments in national internal revenue taxes to be equal to 20 percent *at the maximum* with the IRA share of any particular LGU not increasing by more than 20 percent in any given year.

Implications

This provision of the 1991 LGC has generated high expectations among local government officials and the public. Some quarters have pointed out this will lead to a substantial increase in the financial resources of LGUs. Amounts allocated for IRA in 1987-1990 were noted to be on the average only 12.7 percent of net BIR tax receipts. Thus, with the IRA rising to 30 percent of gross BIR collections, IRA shares of LGUs will expectedly almost triple in 1992 relative to their levels in previous years. However, under the Code, the various categories of allotments and aids from the national government to LGUs that comprised what used to be known as National Assistance for Local Government Units (NALGU) funds are now integrated with the IRA. Thus, it is more appropriate to compare the 1992 IRA with the 1991 NALGU fund.

Full implementation of the 1991 LGC implies that IRA to LGUs in 1992 should be equal to P24.4 billion. While this represents a hefty 111.8

percent increase over the P8.5 billion IRA in 1991, it is a mere 51.0 percent increase over the P16.2 billion NALGU in the same year (Table 1). Moreover, the increment in the sum total of national aids and allotments to LGUs under this scenario (P24.4 billion in 1992 IRA less P16.2 billion in 1991 NALGU or P8.2 billion) is just about half of initial expectations (P24.4 billion in 1992 IRA less P8.5 billion in 1991 IRA or P 15.9 billion).

If, for the sake of analysis, one assumes that 40 percent (the maximum share prescribed under the LGC for 1994 and every year thereafter) of BIR tax receipts were appropriated for IRA in 1992, then one finds that the 1992 IRA is 101.1 percent higher than the 1991 NALGU or 280.8 percent higher than the 1991 IRA.

Table 1
INTERNAL REVENUE ALLOTMENT (IRA)

| Levels | In Billion Pesos |
|--|---------------------|
| 1. 1991 | |
| a. NALGU * | 16.158 |
| b. IRA, STA and LGRSF combined | 10.022 |
| c. IRA only | 8.535 |
| 2. 1992 | |
| a. as appropriated in 1992 GAA | 18.078 |
| b. as mandated by 1991 LGC | 24.373 |
| c. if 40% of BIR taxes is appropriated | 32.498 |
| Percentage Change | In Percent |
| 3. 2a/1a | 11.88 |
| 4. 2a/1b | 80.38 |
| 5. 2a/1c | 111.81 |
| 6. 2b/1a | 50.84 |
| 7. 2b/1b | 143.19 |
| 8. 2b/1c | 185.57 |
| 9. 2c/1a | 101.13 |
| 10. 2c/1b | 224.27 |
| 11. 2c/1c | 280.76 |

* NALGU funds directly allocable to LGUs. This excludes appropriations for the Integrated Area Development Projects and the Palarong Pambansa.

In fact, only P18.1 billion is appropriated for IRA under the 1992 General Appropriations Act (GAA). This amount is just 11.9 percent (or P1.9 billion) higher than the 1991 NALGU.

IRA, Devolved Functions and Financial Autonomy: A Digression

Executive Order (EO) 507 directs NGAs to shoulder all the cost of transferred functions, whether or not shifted to LGUs within the year in 1992. However, from 1993 onwards, LGUs will fund the cost of devolved functions from their augmented IRA shares and locally generated revenues.

Comparing the change in amount allocated for IRA in 1993 with cost of devolved functions to find out whether LGUs' new expenditure responsibilities match the amount of additional resources transferred to them, the approach taken was as follows: *First*, the 1991 level of NALGU funds was viewed as representing the centrally funded portion of LGU budgets necessary to sustain their services at pre-LGC levels. *Second*, the budgets of NGAs corresponding to functions and responsibilities to be transferred to LGUs was used as a benchmark figure for the actual cost of devolved functions. *Third*, the baseline expenditure levels thus derived were adjusted for inflation (assuming an annual inflation rate of 10 percent) so as to maintain their values in real terms in 1993. *Fourth*, the inflation adjusted projected LGU expenditures for both old and new functions was compared with the projected 1993 IRA levels. Finally, since no functions will be devolved to barangays, the analysis segregates barangays from other levels of local governments.

EO 507 estimates the cost of devolved functions excluding the cost of construction and maintenance of public schools (which has also been devolved to LGUs) at P10 billion in 1992. Thus, the P1.5 billion budget for school buildings in the 1992 GAA brings the total cost of devolved functions to P11.5 billion according to official estimate. If P36.4 billion or 35 percent of gross BIR tax receipts is appropriated for IRA in 1993, 80 percent of this amount or P29.1 billion will represent the combined IRA share of provinces, cities and municipalities while the remaining 20 percent or P7.3 billion will go to ba-rangays. Table 2 shows that in this scenario the non-barangay IRA share will exceed the cost of devolved functions and pre-LGC expenditure responsibilities by P0.56 billion while the IRA share of barangays will exceed centrally funded barangay pre-Code expenditures by P3.96 billion. However, if only P31.2 billion or 30 percent of gross BIR tax revenues were appropriated for IRA in 1993, provinces, municipalities and cities combined will suffer a shortfall of P3.6 billion while barangays will post a smaller surplus of P2.93 billion.

On the other hand, independent estimates — based on the actual appropriations in the 1992 GAA for the list of functions to be transferred to

Table 2
MATCHING OF IRA AND EXPENDITURE
RESPONSIBILITIES, ALL LGUS, 1993
(In billion pesos)

| | Combined Provinces Municipalities and Cities | | | Barangay | | |
|---|--|--------------------|--------------|-------------|-------------|-------------|
| | 40% IRA | 35% IRA | 30% IRA | 40%IRA | 35% IRA | 30%IRA |
| A. Benchmark Cost of Devolved Functions in 1992 | | | | | | |
| P10 (from EO 507) + P1.5(DECS) = P11.5 | | | | | | |
| Revenues: | | | | | | |
| IRA share | 33.27 | 29.12 | 24.96 | 8.32 | 7.27 | 6.24 |
| Expenditures:^a | | | | | | |
| Cost of devolved functions | 12.65 | 12.65 | 12.65 | NA | NA | NA |
| Centrally financed baseline LGU expenditures | 15.91 ^b | 15.91 ^b | 15.91 | 3.31 | 3.31 | 3.31 |
| Total | 28.56 | 28.56 | 28.56 | 3.31 | 3.31 | 3.31 |
| Surplus/(Deficit) | 4.71 | 0.56 | (3.60) | 5.01 | 3.96 | 2.93 |
| B. Benchmark Cost of Devolved Functions in 1992: P13 | | | | | | |
| IRA share | 33.27 | 29.12 | 24.96 | 8.32 | 7.27 | 6.24 |
| Expenditures:^a | | | | | | |
| Cost of devolved functions | 14.30 | 14.30 | 14.30 | NA | NA | NA |
| Centrally-financed baseline LGU expenditures | 15.91 ^b | 15.91 ^b | 15.91 | 3.31 | 3.31 | 3.31 |
| Total | 30.21 | 30.21 | 30.21 | 3.31 | 3.31 | 3.31 |
| Surplus/(Deficit) | 3.06 | (1.06) | (5.25) | 5.01 | 3.96 | 2.93 |

^a Inflation adjusted: assumed inflation rate = 10 percent.

^b Based on 1991 NALGU of P16.158 less Barangay Administration Fund of P1.525 and Concrete Barangay Road Fund of P1.483.

LGUs contained in EO 507 — placed the cost of devolved functions at P13 billion. In this scenario, non-barangay LGUs will register a shortfall of P1.09 billion if the 1993 IRA appropriation is 35 percent of gross BIR tax receipts and a deficit of P5.25 billion if the appropriation for the 1993 is equal to only 30 percent of national internal revenue taxes.

If, for the sake of analysis, 40 percent (the maximum share allowed by the LGC for 1994 and every year thereafter) of BIR tax receipts were appropriated for IRA in 1993, then provinces, municipalities and cities combined will have a surplus equal to P4.71 billion (P3.06 billion) if the true cost of devolved functions is P11.5 billion (P13 billion). At the same time, barangays will also have a surplus of P5.01 billion.

Moreover, while the 1993 IRA share of provinces, municipalities and cities appear to be sufficient to fund their new and existing expenditure responsibilities at the aggregate based on official estimates of the cost of devolved functions, actual data from a limited number of LGUs show lower-income class LGUs tend to have financial difficulties due to the Code's devolution program.² For instance, our sample urban/industrial province — belonging to the first income class — will post a surplus ranging from P21.9 billion to P63.8 billion as the share of IRA in BIR tax receipts varies from 30 percent to 40 percent in 1993 (Table 3)³ In contrast, our sample urban/industrial first-class municipality is projected to register a deficit that varies from P6.7 billion to P3.7 billion. Likewise, our sample rural/agricultural third-class province will suffer a shortfall that fluctuates from P24.8 billion to P1.4 billion while our sample rural/agricultural sixth-class municipality will have a deficit as large as P1.51 billion or as small as P0.5 billion.

Because of the anticipated shortfall in resources at the provincial/municipality/city level even without any apparent problems at the aggregate level, it is critical that the "augmentation" scheme outlined in Article 31 of the Implementing Rules and Regulations (IRR) (whereby NGAs and the next higher LGU may augment basic services assigned to a lower LGU in case the latter "cannot continually support the salaries of devolved personnel, maintain operations of transferred assets or finance the adequate delivery of basic services and facilities") be worked out in concrete terms in the short run. This will require every LGU to be provided good

² In this examination, information on the cost of devolved functions to be absorbed by the LGUs was obtained from the regional offices of national government agencies. Only the DA, DOH, DENR and DSWD provided data; other agencies have not yet prepared the breakdown of budgets for devolved functions on an LGU per LGU basis.

³ The Code ordains that the IRA will be 35 percent of BIR tax receipts at the maximum in 1993. However, the case where IRA is equal to 40 percent of BIR tax collections is included in the analysis to take into account the mandated share of LGUs in national internal revenue taxes in a typical post-Code year.

Table 3
MATCHING OF IRA AND EXPENDITURE
RESPONSIBILITIES, SAMPLE LGUS, 1993
(in million pesos)

| | 40% IRA | 35% IRA | 30% IRA |
|--|---------------|---------------|---------------|
| A. Urban/Industrial Province | | | |
| Revenues: | | | |
| IRA share | 167.61 | 146.66 | 125.71 |
| Expenditures: ^a | | | |
| Cost of devolved functions | 44.96 | 44.96 | 44.96 |
| Centrally-financed baseline LGU expenditures | 58.83 | 58.83 | 58.83 |
| T o t a l | 103.79 | 103.79 | 103.79 |
| Surplus/(Deficit) | 63.82 | 42.87 | 21.92 |
| Change in Local Revenues ^b | 4.94 | 4.94 | 4.94 |
| B. Rural/Agricultural Province | | | |
| IRA share | 93.56 | 81.86 | 70.17 |
| Expenditures: ^a | | | |
| Cost of devolved functions | 61.29 | 61.29 | 61.29 |
| Centrally-financed baseline LGU expenditures | 33.68 | 33.68 | 33.68 |
| T o t a l | 94.97 | 94.97 | 94.97 |
| Surplus/(Deficit) | (1.41) | (13.11) | (24.80) |
| Change in Local Revenue ^b | 1.86 | 1.86 | 1.86 |

information on its 1993 IRA shares and on the true cost of devolved functions. Then, the LGUs' augmentation needs based on a comparative assessment of their resources and their new functions will have to be factored back into NGA budgets. Though by no means an impossible task,

Table 3 (continued)

| | 40% IRA | 35% IRA | 30% IRA |
|--|--------------|--------------|--------------|
| C. Urban/Industrial Municipality | | | |
| IRA share | 11.92 | 10.43 | 8.94 |
| Expenditures: ^a | | | |
| Cost of devolved functions | 11.29 | 11.29 | 11.29 |
| Centrally-financed Baseline LGU expenditures | 4.34 | 4.34 | 4.34 |
| Total | 15.63 | 15.63 | 15.63 |
| Surplus/(Deficit) | (3.71) | (5.20) | (6.69) |
| Change in Local Revenue ^b | 10.03 | 10.03 | 10.03 |
| D. Rural/Agricultural Municipality | | | |
| IRA share | 4.26 | 3.73 | 3.20 |
| Expenditures: ^a | | | |
| Cost of devolved functions | 3.64 | 3.64 | 3.64 |
| Centrally-financed baseline LGU expenditures | 1.07 | 1.07 | 1.07 |
| Total | 4.71 | 4.71 | 4.71 |
| Surplus/(Deficit) | (0.45) | (0.98) | (1.51) |
| Change in Local Revenue ^b | 0.26 | 0.26 | 0.26 |

^a Inflation adjusted: assumed inflation rate = 10%.

^b This represents the change in total local source revenues exclusive of SEF that is due to the adoption of maximum allowable tax rates in 1993. It is the difference between the 1993A projection and the inflation adjusted 1992 level as shown in Table 15. SEF revenues are excluded because the SEF may be used exclusively for education programs.

it is a formidable one, given time constraints. *The Oversight Committee must beef up its monitoring efforts to facilitate the necessary movement of information across different levels of government. If this is not done, serious disruption in delivery of basic services may result.*

Two caveats must be raised in using NGA budgets to estimate the real cost of devolved functions. The first is a technical issue, the second is conceptual. Both tend to support the view that NGA budgets are insufficient to gauge the amount of resources LGUs will need for a successful decentralization program. *First*, given the severe budgetary constraints the government worked with due to its debt overhang, national agencies tend to underprovide services. To this extent, NGA budgets will underestimate the cost of devolved functions.

Second, economic theory suggests that one of the more important benefits of decentralization arises from efficiency gains associated with substitution of national priorities with local priorities. This shift is expected to come about as LGUs are given greater discretion in deciding the level and mix of public services they provide. This proposition is based on the premise that local units, by their access to the people, can adequately supply appropriate quantity and quality of specific services their constituents demand and target certain sectors as beneficiaries of particular programs.

The mandated absorption of devolved personnel by LGUs is inconsistent with this view, at least in the near term. It will, in a sense, lock LGUs into the same expenditure priorities as NGAs.⁴ Thus, this will possibly minimize anticipated gains from decentralization unless additional discretionary resources over and above what is needed to cover cost of devolved functions are forthcoming.

These observations tend to show that the new IRA levels of non-barangay LGUs do not translate into a significant increment in their discretion over resources after the cost of devolved functions is taken into account. From this point of view, the increase in discretionary resources allocated to non-barangay LGUs will be P0.56 billion in 1993 under the most liberal set of assumptions. In the worst-case scenario, non-barangay LGUs will have to use locally generated funds to cover the shortfall (amounting to P5.25 billion) between their IRA shares and the cost of maintaining their old expenditure levels and taking on their new functions. On the other hand, barangays will receive a substantial increase in discretionary resources, anywhere from P2.93 billion to P3.96 billion. Thus, we observe the paradoxical situation where LGUs which are

⁴While the Code does not prevent LGUs from veering away from NGA priorities, the manner by which the devolution of function is designed to proceed (i.e., through LGU absorption of NGA personnel, assets and facilities) and the limited resources available to LGUs will effectively constrain them in this regard in the next three years or so.

administratively least prepared are handed the biggest chunk of increase in discretionary funds while those which are more capable are provided very little real financial autonomy. This situation will require careful handling. *A system of financial control must be installed at the barangay level immediately to ensure public accountability and forestall dissipation of resources. Also, barangay officials should be trained on financial management, planning and budgeting.*

At the same time, to give meaning to fiscal autonomy, non-barangay LGUs ought to rely, largely, on their own initiative. *This requires LGUs to install new systems and procedures to improve collection efficiency and to maximize the use of their revenue raising powers as to mobilize necessary financing for their new expenditure responsibilities.*

Allocation Ratios to Different Levels of LGUs

Provisions

Under the new Code, 23 percent of the IRA is allocated to provinces, 23 percent to cities, 34 percent to municipalities and 20 percent to barangays. In contrast, PD 144, as amended, decreed that 10 percent of the amount due LGUs as their share in national internal revenue taxes be set aside for the Barangay Development Fund and the remaining amount (appropriated in the GAA as the IRA share of provinces, cities and municipalities combined) be divided as follows: 30 percent to provinces, 45 percent to municipalities and 25 percent to cities. On the other hand, two funds in the NALGU (Barangay Administration Fund and Concreting of Barangay Roads Fund), exclusively for barangay use, were drawn from the Barangay Development Fund.

Implications

Other things being equal, barangays are the biggest gainers in the reallocation of the IRA among the different levels of LGUs in the 1991 LGC. Cities benefit minimally while provinces and municipalities are the losers. Consider a situation where the LGC is implemented in full such that P24.4 billion is appropriated for IRA and allocated to different levels of local governments using the new allocation ratios. Next consider another situation where the same amount is appropriated for IRA but where the old allocations ratios are used. The IRA share of provinces and municipalities declines by 14.8 percent and 16.1 percent, respectively, and that of cities and barangays rises 2.2 percent and 100.0 percent, respectively, as a result of the introduction of the new ratios (Table 4).

However, because the sum total of national aids and allotments to barangays in the pre-LGC period, in fact, exceeds 10 percent of total

NALGU funds, the actual gainers and losers are slightly different. Assuming the full P24.4 billion is appropriated for IRA in 1992 and the new allocation ratios are used, the share of provinces and municipalities in the IRA will rise at a slower pace (42.0% and 40.0%, respectively) than the overall rate of increase in total IRA (50.8%). The IRA shares of cities and barangays are projected to register increases of 70.4 percent and 62.5 percent, respectively. All changes are reckoned relative to their 1991 share in NALGU funds.⁵

On the other hand, if only P18.1 billion is appropriated for IRA in 1992 as the 1992 General Appropriations Act provides and if the new allocation ratios in the Code are followed, the IRA share of provinces, cities, municipalities, and barangays will increase by 5.3 percent, 26.4 percent, 3.88 percent and 20.3 percent, respectively, relative to their 1991 share in NALGU. Again, these figures are considerably less than initial expectations.

Distribution Formula to Specific LGUs

Provisions

The Code provides that the share of each particular province, city or municipality will be determined by the following formula: population 50 percent; land area 25 percent; and equal sharing 25 percent. Under PD 144, the formula was population 70 percent; land area 20 percent; and equal sharing 10 percent.

Implications

Other things being equal, the reduction in the weight assigned to population in the distribution formula tends to favor the less populous LGUs relative to the more populous ones. To illustrate, the IRA share of two provinces, of approximately the same land area, with one having a population 4.5 times higher than the other, was analyzed. Compare a situation where the Code is implemented in full with P24.4 billion appropriated for IRA in 1992 and is distributed to specific LGUs under the new distribution formula to another situation where the same amount is appropriated for IRA but distributed to different LGUs using the old distribution formula. The province with the larger population is estimated

⁵ Here we assumed that all of NALGU except the Barangay Administration Fund and the Fund for Concreting of Barangay Roads are distributed to provinces, cities and municipalities following the 30-25-45 sharing formula. In fact, only IRA, STA and LGRSF (which accounted for 61.7% of all NALGU funds) are allocated according to the formula. The rest are given to LGUs at the discretion of various NGAs like DILG and DPWH. However, if one compares the 1992 IRA shares of the different levels of local governments with their 1991 shares in IRA/STA/LGRSF, the percentage increase will be roughly the same in relative terms.

Table 4
SHARES OF DIFFERENT LEVELS OF LGUS IN IRA

| | Province | City | Municipality | Barangay |
|--|----------|--------|--------------|----------|
| <i>Levels in billion pesos</i> | | | | |
| 1. 1991 | | | | |
| a. NALGU | 3.95 | 3.29 | 5.92 | 3.00 |
| b. IRA, STA and LGRSF combined | 2.71 | 2.25 | 4.06 | 1.00 |
| 2. 1992 | | | | |
| a. Based on aggregate level proposed in 1992 GAA and old allocation ratios | 4.88 | 4.07 | 7.32 | 1.81 |
| b. Based on aggregate level appropriated in 1992 GAA and new allocation ratios | 4.16 | 4.16 | 6.15 | 3.62 |
| c. Based on aggregate level mandated by 1991 LGC and old allocation ratios | 6.58 | 5.48 | 9.87 | 2.44 |
| d. Based on aggregate level mandated by 1991 LGC and new allocation ratios | 5.61 | 5.61 | 8.29 | 4.87 |
| <i>Percentage Change</i> | | | | |
| 3. 2b/1a | 5.33 | 26.40 | 3.81 | 20.52 |
| 4. 2b/1b | 53.66 | 84.39 | 51.43 | 260.77 |
| 5. 2b/2a | -14.81 | 2.22 | -16.05 | 100.00 |
| 6. 2d/1a | 42.01 | 70.41 | 39.95 | 62.49 |
| 7. 2d/1b | 107.17 | 148.60 | 104.16 | 386.39 |
| 8. 2d/2c | -14.81 | 2.22 | -16.05 | 100.00 |

to post a 14.7 percent decline in IRA in 1992 while the province with a lower population is estimated to register an 11.4 percent increase (Table 5). Similar results were obtained in comparing the changes in the IRA share of a more populous municipality (city) whose population is 15 (5.6) times larger than another.

Table 5
SHARE OF PARTICULAR LGUS IN IRA AS AFFECTED BY
NEW DISTRIBUTION FORMULA: ILLUSTRATIVE EXAMPLES

| <i>Level in million pesos</i> | Populous Province | Less Populous Province | Populous Municipality | Less Populous Municipality | Populous City | Less Populous City |
|---|------------------------------|---------------------------------------|----------------------------------|---|--------------------------|-----------------------------------|
| 1. 1991 | 83.79 | 29.26 | 7.86 | 0.97 | 19.15 | 7.23 |
| 2. 1992 | | | | | | |
| a. Based on aggregate level set in 1992 GAA, new allocation ratios and old distribution formula | 128.92 | 44.75 | 11.99 | 1.48 | 35.31 | 13.34 |
| b. Based on aggregate level in 1992 GAA, new allocation ratios and new distribution formula | 109.99 | 49.87 | 9.43 | 1.94 | 38.56 | 22.83 |
| c. Based on aggregate level mandated in 1991 LGC, new allocation ratio and old distribution formula | 173.81 | 60.33 | 16.16 | 1.99 | 47.60 | 17.98 |
| d. Based on aggregate level mandated in 1991 LGC, new allocation ratio and new distribution formula | 148.29 | 67.23 | 12.72 | 2.61 | 51.99 | 30.78 |

Table 5 (continued)

| <i>Level in million pesos</i> | Populous Province | Less Populous Province | Populous Municipality | Less Populous Municipality | Populous City | Less Populous City | |
|-------------------------------|----------------------|------------------------------|--------------------------|----------------------------------|------------------|--------------------------|---------|
| Percentage Change | | | | | | | |
| 3. 2b/1 | 31.27 | 70.41 | 19.95 | 99.45 | 101.39 | 215.59 | |
| 4. 2b/2a | -14.69 | 11.44 | -21.32 | 31.15 | 9.22 | 71.15 | |
| 5. 2d/1 | 76.98 | 129.75 | 61.72 | 168.90 | 171.52 | 325.48 | |
| 6. 2d/2c | -14.69 | 11.44 | -21.32 | 31.15 | 9.22 | 71.15 | |
| Memo items: | | | | | | | |
| Distribution factors: | | | | | | | |
| Population | 0.03720 | 0.00828 | 0.00263 | 0.00018 | 0.00913 | 0.00161 | 0.00749 |
| Land area | 0.01826 | 0.01826 | 0.00024 | 0.00026 | 0.00217 | 0.00208 | 0.00843 |
| Equal sharing | 0.01316 | 0.01316 | 0.00065 | 0.00065 | 0.01667 | 0.01667 | 0.01667 |

In principle, national government transfers to LGUs are based on some measure of expenditure needs in LGUs. Common determinants of need at the local level include population and land area. Demand for expenditures on social services is largely related to a locality's population size and that for infrastructure expenditures is predominantly based on area. Finally, another criterion often used is equal sharing among LGUs to address the fact that LGUs must contend with certain fixed expenditures regardless of size of population or land area. The magnitude of these fixed expenditures is often related to personnel cost of a minimum-sized bureaucracy that each LGU has to maintain.

Given this perspective, one might argue that the substantial increment in weight of equal sharing in distribution formula for IRA is justifiable if the Code enactment is expected to result in a disproportionately large increase in absolute and relative terms (i.e., relative to share of other expenditure items in their budgets) in the LGUs' fixed overhead expenditures. Similarly, the slight increase in the weight accorded land area in the distribution formula might be warranted if under the new Code the share of area-related expenditure items like infrastructure expenditures in LGU budgets is expected to expand compared to that of the previous regime. In contrast, reduction in the emphasis given to population in the distribution formula may be rationalized if the 1991 LGC is expected to lead to contraction in the share of population-based expenditures items in LGU budgets. *These are empirical questions that remain to be resolved. Failure to validate the premises outlined above should be the basis of a revision of the Code in the future.*

At the same time, grants and intergovernmental transfers are also expected to address the problem of equalizing inter-LGU disparities in income and economic opportunities. In some countries, the redistributive goal of national government transfers to LGUs is explicitly addressed by distributing IRA in inverse proportion to the per capita income of LGUs or in relation to the incidence of absolute poverty in the local unit. Estimates of the correlation coefficient between IRA and average family income levels of LGUs show these two variables are positively related to one another before and after Code implementation although the coefficient for the post-Code era is slightly lower than that for the earlier period (Table 6)⁶. This indicates both the old and new schemes of distributing IRA to specific LGUs are counter-equalizing. *In the long term, this is an important issue that needs to be reviewed if the government is serious in reducing inter-local income differences.*

⁶Since estimates of provincial level, but not municipal level, average family income are available from the 1988 Family Income and Expenditure Survey, the correlation coefficient computed in this paper is that between combined IRA of all LGUs in the province and the average family income in the province.

Table 6
CORRELATION COEFFICIENTS BETWEEN IRA
AND PER CAPITA INCOME

| | Correlation Coefficient | T- Value |
|------|----------------------------|-------------|
| 1991 | 0.54 | 5.45 |
| 1992 | 0.49 | 4.13 |

REAL PROPERTY TAXATION (RPT)

The 1991 LGC overhauls the existing real property tax system as defined by PD 464 (otherwise known as the Real Property Tax Code). Notably, the formula delineating shares of the various levels of government in the RPT, assessment levels, and rates at which LGUs may impose the tax are modified.

Basic RPT Rates and the Sharing Formula

Provisions

Under the 1991 LGC, provinces may levy a tax on real property at a rate not greater than 1 percent of assessed value of the property while cities and municipalities in Metro Manila may impose a tax not greater than 2 percent of assessed value. In contrast, provinces and their constituent municipalities were authorized, under PD 464, to separately impose a tax on real property at rates not exceeding 1/2 of 1 percent but not lower than 1/4 of 1 percent. PD 464, likewise, allowed cities to levy RPT at rates not higher than 2 percent and not lower than 1/2 of 1 percent.

Under the new Code, 35 percent of the proceeds of the RPT imposed by the province goes to the province itself, 40 percent to the municipality where the property is located and 25 percent to the barangay. On the other hand, 70 percent of the RPT levied by the city remains with the city while the remaining 30 percent is shared with the barangay where the property is located and with all the other barangays in the city. In contrast, under the PD 464, 45 percent of the proceeds of the combined provincial/municipal RPT accrues to the province, 45 percent to the municipality and 10 percent to the barangay while 90 percent of the proceeds of the RPT imposed by the city accrues to the city and 10 percent to the barangays (Table 7).

Table 7
SHARING OF PROCEEDS
FROM BASIC RPT AND SEF

| | Share | | Percentage Change |
|--------------|--------|----------|----------------------|
| Basic RPT | PD 464 | 1991 LGC | |
| Province | 45% | 35% | -22.22 |
| Municipality | 45 | 40 | -11.11 |
| City | 90 | 70 | -22.22 |
| Barangay | 10 | 25/30* | 150.00/ 200.00 |
| SEF | | | |
| Province | 25% | 50% | 100.00 |
| Municipality | 55 | 50 | -9.09 |
| City | 80 | 100 | 25.00 |
| Barangay | 20 | | 100.00 |

* 25 percent for municipal barangays and 30 percent for city barangays.

Implications

At first glance, it seems the Code raises the ceiling rate for the provincial imposition of the RPT from 1/2 of 1 percent to 1 percent. However, this is one case where what is apparent is not necessarily correct.

Prior to the enactment of the Code, all provinces and their constituent municipalities each imposed a basic RPT at the maximum allowable rate of 1/2 of 1 percent. All real properties in municipalities outside Metro Manila (MM) were subject to a 1 percent tax under the previous scheme. The 1991 LGC withdraws the power to levy real property tax from municipalities outside Metro Manila. *With effectivity of the new Code, all provinces must enact new RPT ordinances, increasing the tax rate from 1/2 of 1 percent to 1 percent if they (the provinces and their municipalities) do not want to lose revenues from the effective abolition of the 1/2 of 1 percent RPT levied before by non-MM municipalities.* Even if all provinces impose the ceiling rate of 1 percent, this will imply neither a higher effective real property tax rate nor additional revenues relative to 1991 levels. This will simply mean setting the effective rate of the post-Code basic RPT

imposition on properties in provincial municipalities at par with that of the pre-Code setup.

In contrast, as of end of December 1991, all MM municipalities imposed RPT at rates above 1 percent but significantly below the ceiling rate of 2 percent. The average RPT rate in MM municipalities was 1.28 percent. Similarly, in the period prior to effectivity of the 1991 LGC, the rate of levy of RPT in all cities was not lower than 1 percent, with 22 cities having rates between 1 percent and 2 percent and 6 cities with rates equal to the ceiling rate of 2 percent. The average RPT rate for all cities was 1.24 percent. Thus, some cities have already reached the ceiling rates permitted in the Code. For these LGUs generating additional revenues through the imposition of higher RPT rates is no longer an option.

Other things being equal, the basic RPT revenues of provinces, cities and MM municipalities will decline by 22.2 percent while that of provincial municipalities will drop by 11.1 percent as a result of the change in the sharing formula. On the other hand, barangay revenues derived from RPT will increase by 150 percent for municipal barangays and by 200 percent for city barangays (Table 7).

On the other hand, if one allows for increase in total taxable assessed value of LGU over time and for the collection of past due accounts and penalties, the decline in the RPT revenues accruing to provinces, municipalities and cities is mitigated somewhat, with the adjustment varying in direct proportion to the rate of increase in its tax base and the share of non-current year taxes on total RPT collections. Basic RPT revenues of our sample urban/industrial province, whose tax base is assumed to register a 10 percent increase yearly, is projected to decline by 15.9 percent in 1993 (relative to its 1992 level) following the modification of the sharing formula.⁷ In like fashion, basic RPT revenues of our sample urban/industrial municipality are estimated to decrease by 2.8 percent while basic RPT revenues of our sample urban/industrial city are projected to drop by 17.1 percent (Table 8).

However, if, in addition to the conditions outlined in the previous paragraph, provincial sanggunians fail to enact new RPT ordinances resulting in the reduction of the effective RPT rates levied on properties in non-MM municipalities to 1/2 of 1 percent, basic RPT revenues in our sample province and municipality are projected to decline by 53.8 percent and 48.6 percent, respectively, in 1993.

⁷In this analysis and in those that follow, it is assumed that the impact of the provisions of the 1991 LGC on tax revenues are felt starting in 1993. In 1992, it is assumed that local tax revenues grow as per their trend values.

Table 8
RPT REVENUES AND THE CHANGE
IN THE SHARING FORMULA: SOME ILLUSTRATIONS

| Levels in thousand pesos | Urban/ Industrial Province | Urban/ Industrial Municipality | Urban/ Industrial City |
|---|---|---|---------------------------------------|
| 1992 | | | |
| Basic | | | |
| a. Current year | 14939.66 | 1891.13 | 3677.33 |
| b. Previous years | 2609.91 | 80.08 | 1181.29 |
| c. Penalties | 741.65 | 45.55 | 696.16 |
| d. Total | 18291.22 | 2016.76 | 5554.79 |
| SEF | | | |
| a. Current year | 2513.60 | 525.31 | 544.79 |
| b. Previous years | 436.13 | 21.96 | 1050.04 |
| c. Penalties | 130.36 | 12.59 | 618.81 |
| d. Total | 3080.08 | 559.86 | 2213.64 |
| Total | 21371.30 | 2576.62 | 7768.43 |
| 1993A | | | |
| Provinces' RPT rate set at 1%; Cities' RPT set at their old rates; LGUs enact ordinance imposing additional 1% tax for SEF | | | |
| Basic | | | |
| a. Current year | 12781.71 | 1849.10 | 3146.16 |
| b. Previous years | 2029.93 | 71.18 | 918.78 |
| c. Penalties | 576.84 | 40.49 | 541.46 |
| d. Total | 15388.48 | 1960.78 | 4606.41 |
| SEF | | | |
| a. Current year | 5529.91 | 525.31 | 749.09 |
| b. Previous years | 872.25 | 19.97 | 1312.54 |
| c. Penalties | 260.72 | 11.44 | 773.52 |
| d. Total | 6662.89 | 556.72 | 2835.15 |
| Total | 22051.36 | 2517.50 | 7441.56 |

Table 8 (continued)

| Levels in thousand pesos | Urban/ Industrial Province | Urban/ Industrial Municipality | Urban/ Industrial City |
|--|----------------------------------|--------------------------------------|------------------------------|
| 1993B | | | |
| Provinces' RPT rate set at 1/2 of 1%; Cities' RPT rate set at their old rates; LGUs do not enact ordinance imposing additional 1% tax for SEF | | | |
| Basic | | | |
| a. Current year | 5809.87 | 924.55 | 3146.16 |
| b. Previous years | 2029.93 | 71.18 | 918.78 |
| c. Penalties | 576.84 | 40.49 | 541.46 |
| d. Total | 8416.64 | 1036.23 | 4606.41 |
| SEF | | | |
| a. Current year | 0.00 | 0.00 | 0.00 |
| b. Previous years | 872.25 | 19.97 | 1312.54 |
| c. Penalties | 260.72 | 11.44 | 773.52 |
| d. Total | 1132.97 | 31.41 | 2086.06 |
| Total | 9549.61 | 1067.63 | 6692.47 |
| Percentage Change | | | |
| 1993A/1992 | | | |
| Basic | | | |
| a. Current year | -14.44 | -2.22 | -14.44 |
| b. Previous years | -22.22 | -11.11 | -22.22 |
| c. Penalties | -22.22 | -11.11 | -22.22 |
| d. Total | -15.87 | -2.78 | -17.07 |
| SEF | | | |
| a. Current year | 120.00 | 0.00 | 37.50 |
| b. Previous years | 100.00 | -9.09 | 25.00 |
| c. Penalties | 100.00 | -9.09 | 25.00 |
| d. Total | 116.32 | -0.56 | 28.08 |
| Total | 3.18 | -2.29 | -4.21 |

Table 8 (continued)

| Levels in thousand pesos | Urban/ Industrial Province | Urban/ Industrial Municipality | Urban/ Industrial City |
|--------------------------|----------------------------------|--------------------------------------|------------------------------|
| 1993B/1992 | | | |
| Basic | | | |
| a. Current year | -61.11 | -51.11 | -14.44 |
| b. Previous years | -22.22 | -11.11 | -22.22 |
| c. Penalties | -22.22 | -11.11 | -22.22 |
| d. Total | -53.99 | -48.62 | -17.07 |
| SEF | | | |
| a. Current year | -100.00 | -100.00 | -100.00 |
| b. Previous years | 100.00 | -9.09 | 25.00 |
| c. Penalties | 100.00 | -9.09 | 25.00 |
| d. Total | -63.22 | -94.39 | -5.76 |
| Total | -55.32 | -58.56 | -13.85 |

Collection Efficiency: 42.29/33.12/59.26
 Collection from past due accounts equal to 1990 levels
 1991 Sharing formula: 45% to the province,
 45% to the municipality,
 and 10% to the barangay
 1992 Sharing formula: 35% to the province,
 40% to the municipality,
 and 25% to the barangays

Assessment Levels

Provisions

The taxable base of the real property tax is the assessed value of real property. The assessed value is computed as the product of the fair market value (as determined by the schedule of fair market values for RPT purposes) and the assessment level. The 1991 LGC provides that the assessment levels in any particular LGU should be legislated by its local sanggunian and should not exceed the rates prescribed therein. On the other hand, assessment levels for different kinds and classes of real properties were fixed (i.e., no local ordinance was necessary to effect the assessment levels) by PD 464.

In the case of lands, maximum assessment levels established under the 1991 LGC are: 20 percent for residential lands, 40 percent for agricultural lands, 50 percent for commercial, industrial or mineral lands and 20 percent for timberlands. PD 464 fixed assessment levels for lands at rates equal to ceiling rates allowed in the 1991 LGC except for agricultural lands which were assessed at 30 percent. Also note that the timberland category was non-existent under PD 464.

At the same time, relative to PD 464, the 1991 LGC cut down assessment levels on agricultural machinery from 60 percent to a maximum of 40 percent and on residential machinery from 70 percent to a maximum of 50 percent. Assessment levels on commercial and industrial machinery have been maintained at 80 percent of fair market value.

Moreover, like PD 464, the 1991 LGC mandates maximum allowable assessment levels for buildings and other improvements to be based on a graduated schedule applicable to several brackets of fair market values. Compared to PD 464, the Code effectively reduces the assessment levels for residential buildings and other improvements from a schedule ranging from 15 to 80 percent to one ranging from 0 to 60 percent; from 40-80 percent to 25-50 percent for agricultural buildings and improvements; and from 50-80 percent to 30-80 percent for commercial/industrial buildings and improvements (Table 9). Under the new Code, residential buildings with fair market value below P175,000 are effectively exempted from the RPT because they are subject to zero assessment level.

Implications

Other things being equal, the change in assessment levels will result in a substantial diminution in the yield of the RPT. The reduction in RPT in any particular LGU will depend on relative weight of the various classes of lands, buildings, other improvements, and machinery in the total taxable assessed value of real property under its jurisdiction.

Ceteris paribus, the higher the proportion of residential lands in the total taxable value of real property of a given LGU the greater the decline in RPT collections. Similarly, the greater the proportion of residential buildings with market value below P175,000 the greater the expected decrease in revenues from RPT.

Although the IRR (Article 309) provides that the new assessment levels will become effective only after the schedule of fair market value has been revised and legislated by the local sanggunians, Table 10 estimates, for the sake of analysis, the impact on basic RPT collections of the change in assessment levels if the prevailing schedule of market values prior to the enactment of the Code remains in force. Its purpose is to highlight the possibility that RPT revenues may decline if the schedule of fair market values were not revised realistically.

Table 9
COMPARISON OF THE ASSESSMENT LEVELS
PRESCRIBED IN PD 464 AND THE 1991 LGC

| | | PD 464 | 1991 LGC |
|--|------------------|-------------------------|------------------|
| A. Lands | | Assessment Level | |
| Residential | | 30 | 20 |
| Agricultural | | 40 | 40 |
| Commercial | | 50 | 50 |
| Industrial | | 50 | 50 |
| Mineral | | 50 | 50 |
| Timberland | | | 20 |
| B. Machineries | | Assessment Level | |
| Residential | | 70 | 50 |
| Agricultural | | 60 | 40 |
| Commercial | | 80 | 80 |
| Industrial | | 80 | 80 |
| C. Buildings and other improvements | | | |
| C.1 Residential | | | |
| PD 464 | | 1991 LGC | |
| Fair Market Value | Assessment Level | Fair Market Value | Assessment Level |
| P30,000 or less | 15 | | |
| 30,000-50,000 | 20 | | |
| 50,000-75,000 | 25 | | |
| 75,000-125,000 | 35 | | |
| 125,000-175,000 | 45 | P175,000 or less | 0 |
| 175,000-250,000 | 55 | | |
| 250,000-300,000 | 65 | 175,000-300,000 | 10 |
| 300,000-350,000 | 65 | | |
| 350,000-500,000 | 75 | 300,000-500,000 | 20 |
| More than P500,000 | 80 | 500,000-750,000 | 25 |
| | | 750,000-1,000,000 | 30 |
| | | 1,000,000-2,000,000 | 35 |
| | | 2,000,000-5,000,000 | 40 |
| | | 5,000,000-10,000,000 | 50 |
| | | More than 10,000,000 | 60 |

Table 9 (continued)

| <i>C.2 Agricultural</i> | | | |
|----------------------------------|----|----------------------|----|
| Fair Market Value | | Fair Market Value | |
| P30,000 or less | 40 | | |
| 30,000-50,000 | 45 | | |
| 50,000-75,000 | 50 | | |
| 75,000-125,000 | 55 | | |
| 125,000-175,000 | 60 | | |
| 175,000-250,000 | 65 | | |
| 250,000-300,000 | 65 | Less than P300,000 | 25 |
| 300,000-350,000 | 70 | | |
| 350,000-500,000 | 75 | 300,000-500,000 | 30 |
| More than P500,000 | | 500,000-750,000 | 35 |
| | | 750,000-1,000,000 | 40 |
| | | 1,000,000-2,000,000 | 45 |
| | | More than 2,000,000 | 50 |
| <i>C.3 Commercial/Industrial</i> | | | |
| Fair Market Value | | Fair Market Value | |
| P30,000 or less | 50 | | |
| 30,000-50,000 | 55 | | |
| 50,000-75,000 | 60 | | |
| 75,000-125,000 | 65 | | |
| 125,000-175,000 | 70 | | |
| 175,000-250,000 | 75 | | |
| 250,000-300,000 | 80 | Less than P300,000 | 30 |
| 300,000-350,000 | 80 | | |
| 350,000-500,000 | 80 | 300,000-500,000 | 35 |
| More than P500,000 | 80 | 500,000-750,000 | 40 |
| | | 750,000-1,000,000 | 50 |
| | | 1,000,000-2,000,000 | 60 |
| | | 2,000,000-5,000,000 | 70 |
| | | 5,000,000-10,000,000 | 75 |
| | | More than 10,000,000 | 80 |

Table 10
RPT COLLECTIONS AND THE CHANGE
IN THE ASSESSMENT LEVELS: SOME ILLUSTRATIONS

| | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|--|----------------------------------|------------------------------------|--------------------------------------|--|
| Levels in thousand pesos | | | | |
| 1992 | | | | |
| Basic | | | | |
| a. Current | 14939.66 | 3345.89 | 1891.12 | 75.37 |
| b. Previous year | 2609.91 | 415.22 | 80.08 | 2.70 |
| c. Penalties | 741.65 | 349.79 | 45.55 | 2.24 |
| d. Total | 18291.22 | 4110.89 | 2016.75 | 80.31 |
| SEF | | | | |
| a. Current | 2513.60 | 573.67 | 525.31 | 92.12 |
| b. Previous year | 436.13 | 65.72 | 21.96 | 40.10 |
| c. Penalties | 130.36 | 49.43 | 12.59 | 4.62 |
| d. Total | 3080.08 | 688.82 | 559.86 | 136.84 |
| Total | 21371.30 | 4799.72 | 2576.61 | 217.15 |
| 1993A | | | | |
| 50% of residential building exempt; new sharing formula; provinces set RPT rate at 1%; LGUs impose additional 1% tax for SEF | | | | |
| Basic | | | | |
| a. Current | 9386.22 | 2398.79 | 1623.40 | 64.59 |
| b. Previous year | 2029.93 | 322.95 | 71.18 | 2.40 |
| c. Penalties | 576.84 | 272.06 | 40.49 | 1.99 |
| d. Total | 11993.00 | 2993.80 | 1735.07 | 68.98 |
| SEF | | | | |
| a. Current | 4060.88 | 1057.60 | 461.19 | 80.74 |
| b. Previous year | 872.25 | 131.44 | 19.96 | 36.45 |
| c. Penalties | 260.72 | 98.86 | 11.45 | 4.20 |
| d. Total | 5193.85 | 1287.90 | 492.60 | 121.39 |
| Total | 17186.85 | 4281.69 | 2227.67 | 190.37 |

Table 10 (continued)

| | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|--|----------------------------------|------------------------------------|--------------------------------------|--|
| Levels in thousand pesos | | | | |
| 1993B | | | | |
| 80% of residential building exempt; new sharing formula; provinces set RPT rate at 1%; LGUs impose additional 1% tax for SEF | | | | |
| Basic | | | | |
| a. Current | 9137.42 | 2361.00 | 1620.80 | 63.89 |
| b. Previous year | 2029.93 | 322.95 | 71.18 | 2.40 |
| c. Penalties | 576.84 | 272.06 | 40.49 | 1.99 |
| d. Total | 11744.19 | 2956.01 | 1732.47 | 68.28 |
| SEF | | | | |
| a. Current | 3953.24 | 1040.94 | 460.45 | 79.87 |
| b. Previous year | 872.25 | 131.44 | 19.96 | 36.45 |
| c. Penalties | 260.72 | 98.86 | 11.45 | 4.20 |
| d. Total | 5086.21 | 1271.23 | 491.86 | 120.52 |
| Total | 16830.40 | 4227.24 | 2224.33 | 188.80 |
| 1993C | | | | |
| 50% of residential building exempt; new sharing formula; provinces set RPT rate at 1/2 of 1%; LGUs do not impose additional 1% tax for SEF | | | | |
| Basic | | | | |
| a. Current | 4693.11 | 1199.40 | 811.70 | 32.30 |
| b. Previous year | 2029.93 | 322.95 | 71.18 | 2.40 |
| c. Penalties | 576.84 | 272.06 | 40.49 | 1.99 |
| d. total | 7299.88 | 1794.40 | 923.37 | 36.69 |
| SEF | | | | |
| a. Current | 0.00 | 0.00 | 0.00 | 0.00 |
| b. Previous year | 872.25 | 131.44 | 19.96 | 36.45 |
| c. Penalties | 260.72 | 98.86 | 11.45 | 4.20 |
| d. Total | 1132.97 | 230.30 | 31.41 | 40.65 |
| Total | 8432.86 | 2024.70 | 954.78 | 77.34 |

Table 10 (continued)

| | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|--|----------------------------------|------------------------------------|--------------------------------------|--|
| Levels in thousand pesos | | | | |
| 1993D | | | | |
| 80% of residential building exempt; new sharing formula; provinces set RPT rate at 1/2 of 1%; LGUs do not impose additional 1% tax for SEF | | | | |
| Basic | | | | |
| a. Current | 4568.71 | 1180.50 | 810.40 | 31.95 |
| b. Previous year | 2029.93 | 322.95 | 71.18 | 2.40 |
| c. Penalties | 576.84 | 272.06 | 40.49 | 1.99 |
| d. Total | 7175.48 | 1775.50 | 922.07 | 36.34 |
| SEF | | | | |
| a. Current | 0.00 | 0.00 | 0.00 | 0.00 |
| b. Previous year | 872.25 | 131.44 | 19.96 | 36.45 |
| c. Penalties | 260.72 | 98.86 | 11.45 | 4.20 |
| d. Total | 1132.97 | 230.30 | 31.41 | 40.65 |
| Total | 8308.45 | 2005.80 | 953.48 | 76.99 |
| Percentage Change | | | | |
| 1993A/1992 | | | | |
| Basic | | | | |
| a. Current | -37.17 | -28.31 | -14.16 | -14.30 |
| b. Previous year | -22.22 | -22.22 | -11.11 | -11.11 |
| c. Penalties | -22.22 | -22.22 | -11.11 | -11.11 |
| d. Total | -34.43 | -27.17 | -13.97 | -14.11 |
| SEF | | | | |
| a. Current | 61.56 | 84.36 | -12.21 | -12.35 |
| b. Previous year | 100.00 | 100.00 | -9.09 | -9.09 |
| c. Penalties | 100.00 | 100.00 | -9.09 | -9.09 |
| d. Total | 68.63 | 86.97 | -12.01 | -11.29 |
| Total | -19.58 | -10.79 | -13.54 | -12.33 |

Table 10 (continued)

| | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|---------------------------------|----------------------------------|------------------------------------|--------------------------------------|--|
| Levels in thousand pesos | | | | |
| 1993B/1992 | | | | |
| Basic | | | | |
| a. Current | -38.84 | -29.44 | -14.29 | -15.23 |
| b. Previous year | -22.22 | -22.22 | -11.11 | -11.11 |
| c. Penalties | -22.22 | -22.22 | -11.11 | -11.11 |
| d. Total | -35.79 | -28.09 | -14.10 | -14.98 |
| SEF | | | | |
| a. Current | 57.27 | 81.45 | -12.35 | -13.30 |
| b. Previous year | 100.00 | 100.00 | -9.09 | -9.09 |
| c. Penalties | 100.00 | 100.00 | -9.09 | -9.09 |
| d. Total | 65.13 | 84.55 | -12.15 | -11.93 |
| Total | -21.25 | -11.93 | -13.67 | -13.05 |
| 1993C/1992 | | | | |
| Basic | | | | |
| a. Current | -68.59 | -64.15 | -57.08 | -57.15 |
| b. Previous year | -22.22 | -22.22 | -11.11 | -11.11 |
| c. Penalties | -22.22 | -22.22 | -11.11 | -11.11 |
| d. Total | -60.09 | -56.35 | -54.21 | -54.32 |
| SEF | | | | |
| a. Current | -100.00 | -100.00 | -100.00 | -100.00 |
| b. Previous year | 100.00 | 100.00 | -9.09 | -9.09 |
| c. Penalties | 100.00 | 100.00 | -9.09 | -9.09 |
| d. Total | -63.22 | -66.57 | -94.39 | -70.29 |
| Total | -60.54 | -57.82 | -62.94 | -64.38 |

Table 10 (continued)

| | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|---------------------------------|----------------------------------|------------------------------------|--------------------------------------|--|
| Levels in thousand pesos | | | | |
| 1993D/1992 | | | | |
| Basic | | | | |
| a. current | -69.42 | -64.72 | -57.15 | -57.61 |
| b. previous year | -22.22 | -22.22 | -11.11 | -11.11 |
| c. penalties | -22.22 | -22.22 | -11.11 | -11.11 |
| d. total | -60.77 | -56.81 | -54.28 | -54.75 |
| SEF | | | | |
| a. current | -100.00 | -100.00 | -100.00 | -100.00 |
| b. previous year | 100.00 | 100.00 | -9.09 | -9.09 |
| c. penalties | 100.00 | 100.00 | -9.09 | -9.09 |
| d. total | -63.22 | -66.57 | -94.39 | -70.29 |
| Total | -61.12 | -58.21 | -62.99 | -64.55 |

For instance, as long as the schedule of market values remains unchanged, even if provinces set their basic RPT rates to 1 percent, basic RPT revenues in our sample urban/industrial province (where residential lands and residential buildings account for a bigger portion of total taxable assessed value relative to that in our rural/agricultural province) are projected to decline by 34.4 percent, if 50 percent of residential buildings in its jurisdiction are assumed to have fair market values below P175,000. On the other hand, RPT revenues in the latter province are estimated to drop by 27.2 percent in 1993.

The decline in basic RPT revenues in similarly situated municipalities (i.e., those with similar distribution of taxable values across different classes of lands, buildings, and machinery) is softened somehow by the increase, under the 1991 LGC, in their share in RPT proceeds. Thus, basic RPT revenues of our sample rural/agricultural municipality (where the taxable assessed value of residential lands and buildings represents a higher proportion of total taxable assessed value compared to our sample urban/industrial municipality) are projected to deteriorate by 14.1 percent, if 50 percent of its residential buildings is assumed to fall in the zero-rated category compared to a 14.0 percent contraction of the RPT revenues in the latter type of municipality (Table 10).

If 80 percent of residential buildings were subject to zero assessment level, the deterioration in RPT revenues becomes slightly more pronounced. Basic RPT revenues of our sample provinces are projected to decline by an additional 1 percentage point while those of our sample municipalities decrease by less than 1 percentage point.

Again, for purposes of analysis, this study posed another question: What is the minimum adjustment in the schedule of market values for real properties that will enable LGUs to recoup the revenue foregone due to change in assessment levels and sharing formula for RPT? If provinces set their basic RPT rates at 1 percent and if 50 percent of residential buildings in their jurisdiction are effectively exempt, then our sample urban/industrial (rural/agricultural) province would need to adjust its schedule of market values by 67 percent (47%) on the average to recover the loss in revenues from the basic RPT *alone*. On the other hand, our urban/industrial (rural/agricultural) municipality will need to increase its schedule of market values by 17 percent (17%) on the average (Table 11). Pegging the basic RPT rate at 1/2 percent in provinces will naturally give rise to a need for greater adjustments (between 100% and 250% increase) in the schedule of fair market values.

The upward adjustment in the schedule of fair market values necessary to counteract the negative impact of the reduction in the assessment levels on RPT revenues is not large when one compares it to ratio of the "true market value" of real properties to the "fair market value" in the prevailing schedule.⁸ The 1991 LGC tends to politicize the process of updating the schedule of fair market values by requiring that the same be legislated by local sanggunians. Many elected local officials tend to veer away from appearing to impose higher taxes. Thus, it is unlikely the revision of the schedule of fair market values will be based on purely technical considerations.

Additional 1 Percent Tax for the Special Education Fund (SEF)

Provisions

The 1991 LGC *allows* provinces, cities and municipalities in Metro Manila to *levy and collect* an annual tax of 1 percent on assessed value of real property in addition to the basic real property tax. Proceeds will accrue exclusively to the SEF. In contrast, PD 464, by itself, *imposed* an additional 1 percent tax on real property to accrue to the SEF.

Under the Code, proceeds of the provincial imposition of the 1 percent tax for SEF will be divided equally between the provincial and the municipal

⁸ Many local assessors pointed out that this ratio lies between 3 and 5.

Table 11
MINIMUM ADJUSTMENT IN REQUIRED SCHEDULE
OF FAIR MARKET VALUE OF REAL PROPERTIES NEEDED
TO RECOUP LOSS IN REVENUE DUE TO CHANGES
IN ASSESSMENT LEVEL AND SHARING FORMULA

| | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|--|----------------------------------|------------------------------------|--------------------------------------|--|
| Case 1: 50% of residential building exempt; provinces set RPT rate at 1%; LGUs impose SEF | | | | |
| Basic RPT only | 67 | 47 | 17 | 17 |
| Basic plus SEF | 31 | 15 | 17 | 18 |
| Case 2: 80% of residential building exempt; provinces set RPT rate at 1%; LGUs impose SEF | | | | |
| Basic RPT only | 72 | 49 | 18 | 19 |
| Basic plus SEF | 35 | 17 | 17 | 20 |
| Case 3: 50% of residential building exempt; provinces set RPT rate at 1/2%; LGUs do not impose SEF | | | | |
| Basic RPT only | 234 | 193 | 135 | 134 |
| Basic plus SEF | 276 | 231 | 200 | 433 |
| Case 4: 80% of residential building exempt; provinces set RPT rate at 1/2%; LGUs do not impose SEF | | | | |
| Basic RPT only | 243 | 198 | 135 | 137 |
| Basic plus SEF | 286 | 237 | 200 | 439 |

school boards. The entire proceeds of the cities' SEF will go to the city school board. PD 464 decreed 55 percent of the additional 1 percent SEF tax on real property collected in provinces shall accrue to municipalities where the property is located, 25 percent to the province, and 20 percent to the National Treasury while 80 percent of the cities' and MM municipalities' SEF shall be retained in cities and said municipalities and 20 percent remitted to the National Treasury.

Implications

Section 235 of the new LGC transforms the additional 1 percent tax on real property for SEF from a national imposition administered and collected by LGUs to a purely LGU imposition (Article 326 of the Implementing Rules and Regulations of the Code). Under the old set-up, LGUs can collect solely on the basis of PD 464 without need for the local sanggunians to pass separate legislation to this effect. *Thus, LGUs must enact their own ordinances imposing the SEF tax.*

Assuming that LGUs' sanggunians impose the SEF levy, then it is obvious all levels of local government — except municipalities outside MM — will greatly benefit from the change in the sharing formula for the SEF under the new Code. Other things being equal, provinces are the biggest gainers since their share will double from 25 to 50 percent. The share of MM municipalities and cities expands by 25 percent and that of non-MM municipalities contracts by 9 percent (Table 7). The actual expansion (contraction) of the 1993 SEF revenues of any particular LGU relative to 1992 levels will be magnified (dampened) by the normal increase in the LGU's taxable assessed value over time but will be muted (amplified) by the presence of revenues from previous years' SEF, the reduction in the assessment levels, and the share of residential lands and buildings in the localities' total taxable assessed values. For instance, abstracting, for the moment, from the change in the assessment levels mandated by the Code, SEF revenues of our sample urban/industrial province in the current year will increase by 116.3 percent, those of our sample urban/industrial city by 28.1 percent while SEF revenues of our sample urban/industrial municipality will decline by 0.6 percent (Table 8).

Adjusting these projections for the new assessment levels provided in the 1991 LGC and assuming 50 percent of the total taxable assessed values for residential buildings in 1991 are effectively exempt in 1992 and the SEF is levied by all LGUs, SEF revenues in our urban/industrial (rural/agricultural) province will increase by 68.6 percent (87.0%) in 1993 relative to 1992. SEF revenues in our urban/industrial (rural/agricultural) municipality will decline by 12.0 percent (11.3%) (Table 10).

If LGUs, whether by conscious design or oversight, fails to enact ordinances imposing the SEF tax, then their SEF revenues in the current

year can only come from collection of delinquencies plus penalties. This implies a 63.2 percent (66.6%) decline in the SEF revenues of our urban (rural) province and a 94.4 percent (70.3%) decrease in our urban (rural) municipality (Table 10).

LICENSE AND BUSINESS TAX (LBT)

Provisions

Under the 1991 LGC, municipalities and cities may levy and collect a tax on businesses according to their gross receipts at rates not exceeding the amounts prescribed in a graduated schedule. Different schedules are applicable to (1) manufacturers, assemblers, repackers, processors of all goods not otherwise classified as essential commodities including brewers, distillers, rectifiers of liquors, distilled spirits and wines; (2) wholesalers and dealers; (3) exporters, and producers/wholesalers/retailers of essential commodities; (4) retailers; and (5) contractors. The rate schedule must be passed in the form of a tax ordinance by the local sanggunians. The provisions of PD 231 on the local business tax were similar to those outlined above. However, the rates were lower: top brackets (of gross receipts) were subject to unit rates rather than ad valorem rates; ceiling rates were differentiated according to income class of a given municipality; and various types of contractors were subject to different rate schedules. Moreover, under PD 231, banks and financial institutions were subject to a unit tax based on type of establishment while, under the new Code, they are subject to an ad valorem tax not exceeding 1/2 of 1 percent of their gross receipts (Table 12).

Implications

The rate of increase in the ceiling rates on the local business tax authorized under the 1991 LGC varies depending on the commodity and/or activity being taxed. For instance, under the new Code, the maximum allowable LBT rate on manufacturing for the domestic market by enterprises with annual gross receipts less than P5 million is 10 percent higher relative to that in PD 231. However, the LBT on domestic manufacturers with yearly gross receipts of P10 million went up by 25 percent. Similarly, the maximum allowable LBT rate on wholesalers/dealers with gross receipts less than P1 million rose by 10 percent while those with gross receipts of P3 million jumped by 50 percent. Likewise, the ceiling rate on retailers with annual gross receipts less than P10,000 rose by about 10 percent on the average, those with annual gross receipts between P15,000-P25,000 by about 50 percent, those with gross receipts between P25,000-P400,000 by 50 percent on the average, those with annual gross receipts between P400,000-P1 million by 10 percent on the average, and

Table 12

COMPARISON OF BUSINESS TAX PROVISION IN PD 231 AND 1991 LGC

- A. On manufacturers, assemblers, repackers, processors, brewers, distillers, rectifiers, and compounders of liquors, distilled spirits, and wines or manufacturers of any article of commerce of whatever kind or nature, in accordance with the following schedule:

| PD 231 | | | | 1991 LGC | | | |
|--|------------------------------------|-------------------------|--|--|------------------------------------|-------------------------|-------------------|
| With gross sales or receipts for the preceding calendar year in the amount of: | | Amount of Tax per annum | | With gross sales or receipts for the preceding calendar year in the amount of: | | Amount of Tax per annum | Percentage change |
| Less than P10,000.00 | | P150.00 | | Less than P10,000.00 | | P165.00 | 10.00 |
| 10,000.00 | or more but less than P15,000.00 | 200.00 | | 10,000.00 | or more but less than P15,000.00 | 220.00 | 10.00 |
| 15,000.00 | or more but less than 20,000.00 | 275.00 | | 15,000.00 | or more but less than 20,000.00 | 302.00 | 10.00 |
| 20,000.00 | or more but less than 30,000.00 | 400.00 | | 20,000.00 | or more but less than 30,000.00 | 440.00 | 10.00 |
| 30,000.00 | or more but less than 40,000.00 | 600.00 | | 30,000.00 | or more but less than 40,000.00 | 660.00 | 10.00 |
| 40,000.00 | or more but less than 50,000.00 | 750.00 | | 40,000.00 | or more but less than 50,000.00 | 825.00 | 10.00 |
| 50,000.00 | or more but less than 75,000.00 | 1,200.00 | | 50,000.00 | or more but less than 75,000.00 | 1,320.00 | 10.00 |
| 75,000.00 | or more but less than 100,000.00 | 1,500.00 | | 75,000.00 | or more but less than 100,000.00 | 1,650.00 | 10.00 |
| 100,000.00 | or more but less than 150,000.00 | 2,000.00 | | 100,000.00 | or more but less than 150,000.00 | 2,200.00 | 10.00 |
| 150,000.00 | or more but less than 200,000.00 | 2,500.00 | | 150,000.00 | or more but less than 200,000.00 | 2,750.00 | 10.00 |
| 200,000.00 | or more but less than 300,000.00 | 3,500.00 | | 200,000.00 | or more but less than 300,000.00 | 3,850.00 | 10.00 |
| 300,000.00 | or more but less than 500,000.00 | 5,000.00 | | 300,000.00 | or more but less than 500,000.00 | 5,500.00 | 10.00 |
| 500,000.00 | or more but less than 750,000.00 | 7,500.00 | | 500,000.00 | or more but less than 750,000.00 | 8,000.00 | 10.00 |
| 750,000.00 | or more but less than 1,000,000.00 | 10,000.00 | | 750,000.00 | or more but less than 1,000,000.00 | 10,000.00 | 10.00 |
| 1,000,000.00 | or more but less than 2,000,000.00 | 12,500.00 | | 1,000,000.00 | or more but less than 2,000,000.00 | 13,750.00 | 10.00 |
| 2,000,000.00 | or more but less than 3,000,000.00 | 15,000.00 | | 2,000,000.00 | or more but less than 3,000,000.00 | 16,500.00 | 10.00 |
| 3,000,000.00 | or more but less than 4,000,000.00 | 18,000.00 | | 3,000,000.00 | or more but less than 4,000,000.00 | 19,800.00 | 10.00 |
| 4,000,000.00 | or more but less than 5,000,000.00 | 21,000.00 | | 4,000,000.00 | or more but less than 5,000,000.00 | 23,100.00 | 10.00 |
| 5,000,000.00 | or more but less than 6,500,000.00 | 24,000.00 | | 5,000,000.00 | or more but less than 6,500,000.00 | 24,375.00 | 1.56 |

Table 12 (continued)

C. On all exporters in accordance with the following schedule:

| PD 231 | | 1991 LGC | | |
|--|-------------------------|--|-------------------------------|-------------------|
| With gross sales or receipts for the preceding calendar year in the amount of: | Amount of Tax per annum | With gross sales or receipts for the preceding calendar year in the amount of: | Amount of Tax per annum | Percentage change |
| | | Less than P10,000.00 | P82.50 | (91.75) |
| | | 10,000.00 or more but less than P15,000.00 | 110.00 | (89.00) |
| | | 15,000.00 or more but less than 20,000.00 | 151.00 | (84.50) |
| | | 20,000.00 or more but less than 30,000.00 | 220.00 | (78.00) |
| | | 30,000.00 or more but less than 40,000.00 | 330.00 | (67.00) |
| | | 40,000.00 or more but less than 50,000.00 | 412.50 | (58.75) |
| | | 50,000.00 or more but less than 75,000.00 | 660.00 | (34.00) |
| | | 75,000.00 or more but less than 100,000.00 | 825.00 | (17.25) |
| | | 100,000.00 or more but less than 150,000.00 | 1,100.00 | 10.00 |
| | | 150,000.00 or more but less than 200,000.00 | 1,375.00 | 37.50 |
| | | 200,000.00 or more but less than 300,000.00 | 1,925.00 | 92.50 |
| | | 300,000.00 or more but less than 500,000.00 | 2,750.00 | 175.00 |
| | | 500,000.00 or more but less than 750,000.00 | 4,000.00 | 300.00 |
| Below P1,000,000.00 | P1,000.00 | 750,000.00 or more but less than 1,000,000.00 | 5,000.00 | 400.00 |
| 1,000,000.00 or more but less than 5,000,000.00 | 2,000.00 | 1,000,000.00 or more but less than 2,000,000.00 | 6,875.00 | 273.75 |
| | | 2,000,000.00 or more but less than 3,000,000.00 | 8,250.00 | 312.50 |
| | | 3,000,000.00 or more but less than 4,000,000.00 | 9,900.00 | 395.00 |
| | | 4,000,000.00 or more but less than 5,000,000.00 | 11,550.00 | 477.50 |
| 5,000,000.00 or more but less than 10,000,000.00 | 3,000.00 | 5,000,000.00 or more but less than 6,500,000.00 | 12,187.50 | 306.25 |
| | | 6,500,000.00 or more | at a rate not at least 306.87 | |
| 10,000,000.00 or more but less than 20,000,000.00 | 5,000.00 | | exceeding eighteen | |
| 20,000,000.00 or more but less than 30,000,000.00 | 7,000.00 | | point seventy-five | |
| 30,000,000.00 or more but less than 50,000,000.00 | 10,000.00 | | percent (18.75%) | |
| | | | of one percent (1%) | |

Table 12 (continued)

| | | | | |
|---|----------|---|---|----------------|
| 8,000.00 or more but less than 10,000.00 | 170.00 | 8,000.00 or more but less than 10,000.00 | 187.00 | 10.00 |
| 10,000.00 or more but less than 15,000.00 | 200.00 | 10,000.00 or more but less than 15,000.00 | 220.00 | 10.00 |
| 15,000.00 or more but less than 20,000.00 | 250.00 | 15,000.00 or more but less than 20,000.00 | 275.00 | 10.00 |
| 20,000.00 or more but less than 30,000.00 | 300.00 | 20,000.00 or more but less than 30,000.00 | 330.00 | 10.00 |
| 30,000.00 or more but less than 40,000.00 | 400.00 | 30,000.00 or more but less than 40,000.00 | 440.00 | 10.00 |
| 40,000.00 or more but less than 50,000.00 | 600.00 | 40,000.00 or more but less than 50,000.00 | 660.00 | 10.00 |
| 50,000.00 or more but less than 75,000.00 | 900.00 | 50,000.00 or more but less than 75,000.00 | 990.00 | 10.00 |
| 75,000.00 or more but less than 100,000.00 | 1,200.00 | 75,000.00 or more but less than 100,000.00 | 1,320.00 | 10.00 |
| 100,000.00 or more but less than 150,000.00 | 1,700.00 | 100,000.00 or more but less than 150,000.00 | 1,870.00 | 10.00 |
| 150,000.00 or more but less than 200,000.00 | 2,200.00 | 150,000.00 or more but less than 200,000.00 | 2,420.00 | 10.00 |
| 200,000.00 or more but less than 300,000.00 | 3,000.00 | 200,000.00 or more but less than 300,000.00 | 3,300.00 | 10.00 |
| 300,000.00 or more but less than 500,000.00 | 4,000.00 | 300,000.00 or more but less than 500,000.00 | 4,400.00 | 10.00 |
| 500,000.00 or more but less than 750,000.00 | 6,000.00 | 500,000.00 or more but less than 750,000.00 | 6,600.00 | 10.00 |
| 750,000.00 or more but less than 1,000,000.00 | 8,000.00 | 750,000.00 or more but less than 1,000,000.00 | 8,800.00 | 10.00 |
| For every P100,000.00 in excess of P1 million | 100.00 | 1,000,000.00 or more but less than 2,000,000.00 | 10,000.00 | 11.11 to 23.45 |
| | | 2,000,000.00 or more | at a rate not exceeding fifty percent (50%) of one percent (1%) | |

Table 12 (continued)

| | | | | |
|---|-----------|----------------------|---------------------|-----------------|
| 6,500,000.00 or more but less than 7,000,000.00 | | | | 1.72 to 9.37 |
| 7,000,000.00 or more but less than 9,000,000.00 | 27,000.00 | 6,500,000.00 or more | at a rate not | (1.39) to 24.99 |
| 9,000,000.00 or more but less than 12,000,000.00 | 30,000.00 | | exceeding thirty- | 2.27 to 49.99 |
| 12,000,000.00 or more but less than 15,000,000.00 | 33,000.00 | | seven and a half | 37.50 to 70.45 |
| 15,000,000.00 or more but less than 18,000,000.00 | 36,000.00 | | percent (37½%) | 56.25 to 87.49 |
| 18,000,000.00 or more but less than 20,000,000.00 | 40,000.00 | | of one percent (1%) | 68.75 to 87.49 |
| For every P500,000.00 in excess of P20,000,000.00 | | | | |
| but not more than P50,000,000.00 | P500.00 | | | at least 85.19 |
| For every P500,000.00 in excess of | | | | |
| P50,000,000.00 | 250.00 | | | |

B. On wholesalers, distributors, or dealers in any article of commerce of whatever kind or nature in accordance with the following schedule:

PD 231

1991 LGC

| With gross sales or receipts for the preceding calendar year in the amount of: | | Amount of Tax per annum | With gross sales or receipts for the preceding calendar year in the amount of: | | Amount of Tax per annum | Percentage change |
|--|-----------|-------------------------|--|-----------|-------------------------|-------------------|
| Less than P1,000.00 | | P15.00 | Less than P1,000.00 | | P18.00 | 20.00 |
| 1,000.00 or more but less than 2,000.00 | P2,000.00 | 30.00 | 1,000.00 or more but less than 2,000.00 | P2,000.00 | 33.00 | 10.00 |
| 2,000.00 or more but less than 3,000.00 | 3,000.00 | 45.00 | 2,000.00 or more but less than 3,000.00 | 3,000.00 | 50.00 | 11.11 |
| 3,000.00 or more but less than 4,000.00 | 4,000.00 | 65.00 | 3,000.00 or more but less than 4,000.00 | 4,000.00 | 72.00 | 10.77 |
| 4,000.00 or more but less than 5,000.00 | 5,000.00 | 90.00 | 4,000.00 or more but less than 5,000.00 | 5,000.00 | 100.00 | 11.11 |
| 5,000.00 or more but less than 6,000.00 | 6,000.00 | 110.00 | 5,000.00 or more but less than 6,000.00 | 6,000.00 | 121.00 | 10.00 |
| 6,000.00 or more but less than 7,000.00 | 7,000.00 | 130.00 | 6,000.00 or more but less than 7,000.00 | 7,000.00 | 143.00 | 10.00 |
| 7,000.00 or more but less than 8,000.00 | 8,000.00 | 150.00 | 7,000.00 or more but less than 8,000.00 | 8,000.00 | 165.00 | 10.00 |

Table 12 (continued)

D. On retailers, independent wholesalers and distributors in accordance with the following schedules:

| PD 231 | | 1991 LGC | | |
|--|-------------------------|--|-------------------------|-------------------|
| With gross sales or receipts for the preceding calendar year in the amount of: | Amount of Tax per annum | With gross sales or receipts for the preceding calendar year in the amount of: | Amount of Tax per annum | Percentage change |
| Less than P1,000.00 | P15.00 | | | 33.33 |
| 1,000.00 or more but less than 2,000.00 | 30.00 | | | (33.27) to 33.27 |
| 2,000.00 or more but less than 3,000.00 | 45.00 | | | (11.07) to 33.28 |
| 3,000.00 or more but less than 4,000.00 | 65.00 | | | (7.66) to 23.05 |
| 4,000.00 or more but less than 5,000.00 | 90.00 | | | (11.09) to 11.09 |
| 5,000.00 or more but less than 6,000.00 | 110.00 | | | (9.07) to 9.07 |
| 6,000.00 or more but less than 7,000.00 | 130.00 | | | (7.68) to 7.68 |
| 7,000.00 or more but less than 8,000.00 | 150.00 | | | (6.65) to 6.65 |
| 8,000.00 or more but less than 10,000.00 | 170.00 | | | (5.87) to 17.63 |
| 10,000.00 or more but less than 15,000.00 | 200.00 | | | 0.00 to 49.99 |
| 15,000.00 or more but less than 20,000.00 | 250.00 | | | 20.00 to 59.99 |
| 20,000.00 or more but less than 30,000.00 | 300.00 | | | 33.34 to 99.99 |
| 30,000.00 or more but less than 40,000.00 | 400.00 | | | 50.00 to 99.99 |
| 40,000.00 or more but less than 50,000.00 | 600.00 | | | 33.33 to 66.66 |
| 50,000.00 or more but less than 75,000.00 | 900.00 | | | 11.11 to 66.66 |
| 75,000.00 or more but less than 100,000.00 | 1,200.00 | | | 25.00 to 66.66 |
| 100,000.00 or more but less than 150,000.00 | 1,700.00 | | | 17.65 to 76.47 |
| 150,000.00 or more but less than 200,000.00 | 2,200.00 | | | 36.36 to 81.82 |
| 200,000.00 or more but less than 300,000.00 | 3,000.00 | | | 33.33 to 99.99 |
| 300,000.00 or more but less than 400,000.00 | 4,000.00 | P400,000.00 or less | 2% | 50.00 to 99.99 |
| 400,000.00 or more but less than 500,000.00 | 4,000.00 | more than P400,000.00 | 1% | 0.00 to 25.00 |
| 500,000.00 or more but less than 750,000.00 | 6,000.00 | | | (16.67) to 24.99 |
| 750,000.00 or more but less than 1,000,000.00 | 8,000.00 | | | (6.25) to 25.00 |
| For every P100,000.00 in excess of P1 million | 100.00 | | | at least 35.00 |

those with annual gross receipts over P2 million by at least 122 percent. The increase in the ceiling rate of LBT on exporters is highest: minimum of 300 percent, depending on gross receipts for the year (Table 12).

Assuming the local sanggunians pass new revenue ordinances adopting the maximum rate of levy of the LBT provided in the 1991 LGC, the magnitude of the change on the expected yield of LBT in municipalities and cities in 1992 will depend on the relative importance of various taxable activities in the total LBT base. For instance, in poor, primarily agricultural LGUs, the LBT base be dominated by retailers. In our example, we assumed 90 percent of the LBT base of said municipality comes from retailers with gross annual sales less than P400,000 (whose tax rate is assumed to rise by 50 percent on the average) and 10 percent by manufacturers/wholesalers in the lower brackets (whose tax rate is assumed to rise by 10 percent on the average). Moreover we assumed the trend growth of LBT revenues is 13 percent per annum. If the local sanggunian adopts the maximum allowable LBT rates, the projected rate of increase in our rural municipality's LBT revenues in 1993 is 65.0 percent. In LGUs where manufacturers/wholesalers account for a bigger portion of its LBT base, the rate of increase in LBT would be smaller. Our sample urban municipality, (with 80% of its LBT base assumed to be accounted for by manufacturers/wholesalers whose tax rate is estimated to increase by 15% and 20% by retailers whose tax rate is likely to increase by 40%) was projected to register a 35.6 percent increase in LBT revenues in 1993 (Table 13).

Thus, rural/agricultural municipalities may be better able to augment (in proportional terms) their LBT revenues via an increase in LBT rates. However, their business tax base might be so small that even if the proportional change is large, the absolute change in LBT revenues might be insignificant.

It is important to emphasize that the base of the LBT is essentially more mobile than those of other types of taxes. This suggests raising the tax rates beyond a certain level might be counterproductive as supply side effects begin to bite. *One must be careful — to use a cliché — not to kill the goose that lays the golden eggs.*

Moreover, this is one area where macro-micro tension is strong. The taxes with significant rates of increase in the maximum allowable rates of imposition are less desirable from the point of view of overall economic efficiency. One example is the tax on the gross receipts of exporters which can exacerbate the penalty on exports that results from the prevailing tariff structure. Another is the LBT on various stages of production and distribution which like any other turnover tax is undesirable due to its tax cascading feature and because it is more regressive than other types of taxes on consumption like the Value Added Tax (VAT). Still another

Table 13
LICENSE AND BUSINESS TAX
AND CHANGES IN THE ALLOWABLE TAX RATES

| Levels (P1000) | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|--|--------------------------------------|--|
| 1992 | 3688.37 | 61.53 |
| 1993A | | |
| Local Sanggunian passes max. rates for LBT | 5001.44 | 101.51 |
| 1993B | | |
| Local Sanggunian does not pass new LBT ord. | 4167.86 | 69.53 |
| Percentage Change | | |
| 1993A/1992 | 35.60 | 64.98 |
| 1993B/1992 | 13.00 | 13.00 |
| Memo items: | | |
| Share of retail | 0.20 | 0.90 |
| Share of others | 0.80 | 0.10 |
| % change in retail tax | 0.40 | 0.50 |
| % change in other tax | 0.15 | 0.10 |
| Trend growth | 0.13 | 0.13 |

example is the gross receipts tax on banks which has been shown to increase intermediation cost and thus, to discourage investments (Lamberte 1989). *In the long term, assignment of taxing authorities to various levels of government must be reviewed.*

Finally, there appears to be no clear economic justification for imposition of the LBT based on a graduated schedule with enterprises having higher gross receipts being subject to lower effective rates except perhaps for the

fact that greater cost is associated with collecting taxes from small firms. But then again, a two-tiered tax structure suffices to account for this problem. At the same time, the graduated tax rate schedule may favor more integrated firms and/or bigger firms. Such a policy is warranted if it can be shown that bigger/integrated firms are more efficient. Empirical studies on the relative efficiency of large firms vis-a-vis small/medium enterprises are mixed.⁹

OTHER TAXES, CHARGES AND FEES

Provisions

LGUs, particularly provinces, are empowered to impose — in addition to real property and business taxes — a multitude of other taxes. These include those on business of printing and publications, franchises, sand and gravel, transfer of property, professional, amusement and delivery vans.

Under the new Code, provinces are authorized to impose a tax on the sale, donation, barter, or any other mode of transferring of ownership or title of real property at a rate not exceeding 1/2 of 1% of the total consideration involved in the transaction or the *fair market value* of the real property, whichever is higher. This rate is double the ceiling rate provided in PD 231. Moreover, the statutory tax base in PD 231 was either the actual monetary consideration involved in the transaction or the *assessed value* of the real property.

The province may also levy a tax not exceeding 10 percent of the fair market value of sand, gravel and other materials extracted from public lands, and sea/river/lake beds under the new Local Government Code. Under PD 231, the sand and gravel tax was a unit tax not exceeding P0.75 per cubic meter of sand, gravel and/or other materials extracted. The sharing formula for the sand and gravel tax was also changed. PD 231 provided that the municipal share should not be less than 30 percent. In contrast, under the Code, the tax is divided as follows: 30 percent each to both the province and to the municipality and 40 percent to the barangay.

The 1991 LGC increased the rate of imposition of the professional (occupational) tax from P50/P75 to P300 per year. However, the Code limits the definition of professionals for purposes of collecting this tax to individuals who practice professions requiring government examination.

⁹ Contrary to conventional wisdom, this practice is not at all related to redistributive issues. If one assumes the tax is totally passed on to consumers (which is likely in a competitive environment), the higher effective tax rate (relative to sales) on firms with lower gross sales does not necessarily make the tax more regressive or progressive. Even if some part of the LBT is borne by entrepreneurs, one cannot make any statements about the progressivity or regressivity of the tax without adequate information on (total) income profile of said entrepreneurs.

PD 231 provided that the 70 percent of the proceeds from occupational tax should go to the province and 30 percent should be divided equally among the municipalities in the province. Under the new Code, this tax accrues solely to the province.

From a two-tiered (ceiling) rate of 20 percent when the admission price is P1 or less and 30 percent when the admission price is more than P1 under PD 231, the 1991 LGC provides that provinces may levy an amusement tax not exceeding 30 percent regardless of the admission price charged. Also, the Code prescribes the proceeds of the tax to be shared equally by the province and the municipality in contrast to a zero municipal share under PD 231.

Tax rates on printing and publication and franchises have been maintained at 1/2 of 1 percent of the gross annual receipts in the preceding year. For newly-started business, however, the tax was changed from a unit tax to an ad valorem tax equal to 1/20 of 1 percent of the capital investment. While all the proceeds of the tax on business of printing and publication go to the province under both the 1991 LGC and PD 231, distribution of the proceeds of the franchise tax was changed from 60-40 percent to 100-0 percent in favor of the province.

The annual provincial tax on delivery vans increases from P75 maximum for vans distributing alcoholic beverages, soft drinks and tobacco products and P50 for vans distributing other products to P500 maximum for all delivery vans regardless of product distributed.

The 1991 LGC transforms the residence or community tax from a national to a municipal/city imposition. This implies local sanggunians must pass an ordinance imposing the community tax before LGUs can continue the levy. Moreover, the tax base changed from a combination of gross receipts/income and assessed value of real property owned by individuals subject to tax to one based solely on income. The tax rate rose from a basic rate of P1 plus an additional tax of P2 for every P5,000 worth of real property owned (using assessed value) and P2 for every P5,000 of income in excess of P10,000 to a basic rate of P5 plus an additional tax of P1 per every P1,000 of income. Under PD 231, 5 percent of the proceeds of the residence tax went to the national government and the remaining 95 percent was divided equally between province and municipality. Under the new Code, 100 percent of the proceeds of the tax go to the municipal/city coffers except where barangay treasurers are deputized to collect the tax. In this case, the proceeds will be divided equally between barangay and municipality/city.

Finally, PD 231 allowed municipalities to collect fees and charges ranging from P1 to P100 per annum, depending on the kind of permit applied for. In contrast, the new Code provides municipalities can fix fees

and charges at levels commensurate to cost of regulation, inspection or licensing involved.

Implications

The substantial rate increase for most of the other taxes (other than RPT and LBT) can have significant impact on revenues of LGUs depending on the share of these taxes in the aggregate of locally generated funds. If local sanggunians pass new tax ordinances adopting the new ceiling rates provided in the Code, revenues from transfer tax may increase by 300 to 700 percent, depending on the kind and class of property transferred. The rate of increase will be higher for properties subject to lower assessment levels. On the other hand, total revenues from the sand and gravel tax will increase by 433 percent but the share of provinces in the tax will decline by 57 percent. At the same time, the rate of imposition of the professional tax will rise by 300 percent to 500 percent and that of the delivery van tax will increase by 666 to 900 percent. The basic community tax will go up by 400 percent while the additional community tax will increase by 150 percent. Again, provinces will suffer a decline in revenues since all proceeds of the community tax will now go to the municipalities, i.e., provinces will no longer be entitled to the 42.5 percent share they used to get under PD 231. Finally, the rate of increase in other fees and charges has no statutory limit.

To illustrate the impact of these modifications in rates of other taxes, fees and charges as well as in rules governing sharing of the proceeds among the different levels of LGUs, we assumed:

- ❑ the local sanggunians pass new ordinances adopting the new ceiling rates provided in the 1991 LGC for other taxes;
- ❑ the local sanggunians pass ordinances increasing fees and other charges by 20 percent;
- ❑ the fair market price per cubic meter of sand and gravel is P40;
- ❑ 80 percent of the proceeds of the residence tax in earlier years was accounted for by the basic tax, 10 percent by additional tax on real property and 10 percent by the additional tax on gross income;
- ❑ the trend growth of the revenues from the sand and gravel tax and from the professional tax is 4 percent, the community tax 8 percent, amusement tax 11 percent, tax on delivery vans and transfer of property is 15 percent, and, the trend growth in the revenues from other fees and charges is 20 percent.

Revenues from other taxes, fees and charges in our urban province are then projected to rise by 103.5 percent; in our rural province by 31.4 percent; in our urban municipality by 374.1 percent; and in our rural municipality by 223.4 percent (Table 14). These results highlight the

Table 14
OTHER TAXES, FEES AND CHARGES
AND CHANGES IN THE ALLOWABLE TAX RATES

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|--|----------------------------------|------------------------------------|--------------------------------------|--|
| 1992 | | | | |
| Transfer tax | 903.94 | 37.27 | 0.00 | 0.00 |
| Tax on printing | 3.82 | 2.91 | 0.00 | 0.00 |
| Franchise tax | 24.98 | 5.17 | 0.00 | 0.00 |
| Sand and gravel tax | 40.31 | 79.96 | 0.16 | 0.31 |
| Amusement tax | 310.43 | 67.59 | 0.00 | 0.00 |
| Tax on delivery vans | 20.77 | 11.21 | 0.00 | 0.00 |
| Professional tax | 91.44 | 24.85 | 34.38 | 0.27 |
| Community tax | 1234.73 | 310.47 | 145.24 | 10.59 |
| Other fees and charges | 254.58 | 68.99 | 246.14 | 44.92 |
| Total | 2885.01 | 608.42 | 425.92 | 56.08 |
| 1993A (with new ordinances) | | | | |
| Transfer tax | 4338.89 | 178.92 | 0.00 | 0.00 |
| Tax on printing | 4.40 | 3.35 | 0.00 | 0.00 |
| Franchise tax | 49.13 | 10.17 | 0.00 | 0.00 |
| Sand and gravel tax | 95.77 | 189.96 | 0.91 | 1.72 |
| Amusement tax | 172.29 | 37.51 | 86.15 | 0.00 |
| Tax on delivery vans | 191.12 | 103.09 | 0.00 | 0.00 |
| Professional tax | 652.09 | 177.21 | 0.00 | 0.00 |
| Community tax | 0.00 | 0.00 | 1577.83 | 114.99 |
| Other fees and charges | 366.60 | 99.34 | 354.44 | 64.68 |
| Total | 5870.28 | 799.55 | 2019.33 | 181.39 |
| 1993B (without new ordinances) | | | | |
| Transfer tax | 1084.72 | 44.73 | 0.00 | 0.00 |
| Tax on printing | 4.40 | 3.35 | 0.00 | 0.00 |
| Franchise tax | 49.13 | 10.17 | 0.00 | 0.00 |
| Sand and gravel tax | 17.97 | 35.64 | 0.17 | 0.32 |

Table 14 (continued)

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|------------------------|----------------------------------|------------------------------------|--------------------------------------|--|
| Amusement tax | 172.29 | 37.51 | 86.15 | 0.00 |
| Tax on delivery vans | 23.89 | 12.89 | 0.00 | 0.00 |
| Professional tax | 135.85 | 36.92 | 0.00 | 0.00 |
| Community tax | 0.00 | 0.00 | 350.63 | 25.55 |
| Other fees and charges | 305.50 | 82.78 | 295.37 | 53.90 |
| Total | 1793.74 | 263.99 | 732.31 | 79.78 |
| Percentage Change | | | | |
| 1993A/1992 | | | | |
| Transfer tax | 380.00 | 380.00 | | |
| Tax on printing | 15.00 | 15.00 | | |
| Franchise tax | 96.67 | 96.67 | | |
| Sand and gravel tax | 137.57 | 137.57 | 454.32 | 454.32 |
| Amusement tax | -44.50 | -44.50 | | |
| Tax on delivery vans | 820.00 | 820.00 | | |
| Professional tax | 613.14 | 613.14 | -100.00 | -100.00 |
| Community tax | -100.00 | -100.00 | 986.35 | 986.35 |
| Other fees and charges | 44.00 | 44.00 | 44.00 | 44.00 |
| Total | 103.47 | 31.41 | 374.10 | 223.44 |
| 1993B/1992 | | | | |
| Transfer tax | 20.00 | 20.00 | | |
| Tax on printing | 15.00 | 15.00 | | |
| Franchise tax | 96.67 | 96.67 | | |
| Sand and gravel tax | -55.43 | -55.43 | 4.00 | 4.00 |
| Amusement tax | -44.50 | -44.50 | | |
| Tax on delivery vans | 15.00 | 15.00 | | |
| Professional tax | 48.57 | 48.57 | -100.00 | -100.00 |
| Community tax | -100.00 | -100.00 | 141.41 | 141.41 |
| Other fees and charges | 20.00 | 20.00 | 20.00 | 20.00 |
| Total | -37.83 | -56.61 | 71.93 | 42.25 |

tendency of the provisions of the Code on other taxes and fees to favor municipalities relative to provinces and LGUs with more developed economies relative to those which are less urbanized and/or industrialized.

In contrast, if the local sanggunians do not adopt higher rates for other taxes, fees and charges, but if all the other assumptions made in the preceding paragraph still hold, then the revenues from this source in our urban province are forecast to decline by 37.8 percent and in our rural province by 56.6 percent. Revenues from other taxes, fees and charges in our urban municipality will grow by 71.9 percent and in rural municipality by 42.3 percent.

CONCLUSIONS

This study shows the projected increase in IRA may not translate into any significant augmentation of discretionary resources for provinces, cities and municipalities combined. If less than 35 percent of BIR tax receipts is appropriated for IRA or if the true cost of devolved functions is higher than what official estimates indicate, then non-barangay LGUs, as a group, will encounter difficulties in funding their new and existing functions. Moreover, even if there is no financing shortfall in the aggregate, some LGUs — particularly those in the lower income classes — will find the increment in their IRAs is insufficient to cover the cost of functions they must absorb. This indicates the need for an augmentation fund to help deficit LGUs. At the same time, it also suggests that LGUs will have to depend on the growth in their locally generated revenues if they want to be financially autonomous.

In the short haul, the augmentation provision of the LGC must be operationalized if the government is to avoid a breach in the delivery of devolved services. In the long term, size and distribution of the IRA will have to be reviewed to ensure resources being transferred match with functions being devolved from the national government to the local governments, both in aggregate terms and on an LGU-by-LGU basis.

On the other hand, the overall impact of the new Local Government Code on LGUs' local source revenues will depend on: (1) changes in the statutory tax rates; (2) changes in the legal tax base; (3) changes in the sharing formula for the proceeds of the tax; (4) extent to which LGUs exercise their new taxing powers; (5) the composition of the tax base of the LGUs; and (6) buoyancy of the tax base of the LGUs. The last two factors are determined by general economic attributes of the particular LGUs under study.

Our results also indicate there is a wide variation in the possible effects of the 1991 LGC on the financial position of specific LGUs. It must be stressed that while the 1991 LGC gives LGUs broader taxing powers, the Code is simply an enabling act. In the final analysis, the local sanggunians

will have to decide what taxes — given the wide array of taxes they are empowered to levy — to impose and at what rates. Furthermore, local legislatures must decide on appropriate adjustment in schedule of fair market values.

In the best-case scenario where LGUs adopt maximum allowable rates for all types of taxes and the schedule of market values increases by 100 percent, total local revenues of our urban (rural) province are projected to grow by 42.3 percent (39.9%) and in our urban (rural) municipality by 41.5 percent (59.8%) (Table 15). However, in the worst-case scenario where LGUs set their RPT rates at 1/2 percent, do not impose the SEF, increase their schedule of values by 50 percent and do not increase the rate of imposition of LBT and other taxes, total local revenues of our urban (rural) province are projected to decline by 30.0 percent (13.1%) while those of our urban (rural) municipality are projected to grow by 8.2 percent (-8.5%).

Other simulations carried out in Table 15 indicate that of all the adjustments three are most important: the imposition of the basic RPT at 1 percent (for provinces), the imposition of the SEF, and the upgrading of the schedule of fair market values by at least 100 percent. If any one of these is carried out, local revenues are expected to decline or to grow at a slower rate than either our assumed 1.0 percent inflation rate or the trend growth of 15 percent.

Finally, it should be emphasized that the discussion so far focussed only on the impact on local source revenues of adopting maximum allowable local tax rates provided in the new Code. However, the last row of Table 3 points to the possibility that the additional revenues obtainable from the full utilization by LGUs of higher tax rates, holding collection efficiency constant, might not be enough to pay for the gap between the increase in their IRA and the increase in their new responsibilities. Thus, it is just as important to look into other ways of raising local revenues. *These include improvements in tax administration and broadening of the tax base by taxing activities not taxed before.*

Table 15
PROJECTED LOCAL REVENUES
OF LGUS WITH THE 1991 LGC

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|--|---|---|---|---|
| 1992 | | | | |
| Real Property Tax | | | | |
| Basic | 18291.22 | 4110.89 | 2016.75 | 80.31 |
| SEF | 3080.08 | 688.82 | 559.86 | 136.84 |
| Total | 21371.30 | 4799.71 | 2576.61 | 217.15 |
| License and Business Tax | 0.00 | 0.00 | 3688.37 | 61.53 |
| Other Taxes, Fees and Charges | 2885.01 | 608.42 | 425.92 | 56.08 |
| Income from Business Enterprise | 429.22 | 2318.74 | 26200.82 | 266.17 |
| Other Income | 8747.17 | 3685.75 | 36.29 | 32.44 |
| Total | 33432.71 | 11412.62 | 32928.01 | 633.37 |
| Total less SEF | 30352.63 | 10723.80 | 32368.15 | 496.53 |
| 1993A | | | | |
| Max. RPT rates; max. LBT/other tax rates; 100% increase in schedule of values | | | | |
| Real Property Tax | | | | |
| Basic | 21379.22 | 5317.01 | 3358.47 | 132.18 |
| SEF | 9254.74 | 2312.17 | 953.79 | 200.38 |
| Total | 30633.96 | 7629.18 | 4312.26 | 332.56 |
| License and Business Tax | 0.00 | 0.00 | 5001.44 | 101.51 |
| Other Taxes, Fees and Charges | 5870.28 | 799.55 | 2019.33 | 181.39 |

Table 15 (continued)

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|---|---|---|---|---|
| Income from Business Enterprise | 576.88 | 3116.39 | 35213.90 | 357.73 |
| Other Income | 10496.61 | 4422.90 | 43.55 | 38.93 |
| Total | 47577.72 | 15968.01 | 46590.48 | 1012.13 |
| Total less SEF | 38322.98 | 13655.84 | 45636.69 | 811.75 |
| 1993B | | | | |
| Max. RPT rates; max. LBT/other tax rates; 50% increase in schedule of values | | | | |
| Real Property Tax | | | | |
| Basic | 16686.11 | 4136.51 | 2546.77 | 100.23 |
| SEF | 7224.30 | 1791.70 | 723.20 | 160.45 |
| Total | 23910.41 | 5928.21 | 3269.97 | 260.68 |
| License and Business Tax | 0.00 | 0.00 | 5001.44 | 101.51 |
| Other Taxes, Fees and Charges | 5870.28 | 799.55 | 2019.33 | 181.39 |
| Income from Business Enterprise | 576.88 | 3116.39 | 35213.90 | 357.73 |
| Other Income | 10496.61 | 4422.90 | 43.55 | 38.93 |
| Total | 40854.17 | 14267.04 | 45548.19 | 940.25 |
| Total less SEF | 33629.87 | 12475.34 | 44824.99 | 779.80 |

Table 15 (continued)

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|--|----------------------------------|------------------------------------|--------------------------------------|--|
| 1993C | | | | |
| Min. RPT rates; min. LBT/other tax rates; 100% increase in schedule of values | | | | |
| Real Property Tax | | | | |
| Basic | 11993.00 | 2956.01 | 1735.07 | 68.28 |
| SEF | 1132.97 | 230.30 | 31.41 | 40.65 |
| Total | 13125.97 | 3186.31 | 1766.48 | 108.93 |
| License and Business Tax | | | 4167.86 | 69.53 |
| Other Taxes, Fees and Charges | 1793.74 | 263.99 | 723.31 | 79.78 |
| Income from Business Enterprise | 480.73 | 2596.99 | 29344.92 | 298.11 |
| Other Income | 10496.61 | 4422.90 | 43.55 | 38.93 |
| Total | 25897.05 | 10470.19 | 36046.12 | 595.28 |
| Total less SEF | 24764.08 | 10239.89 | 36014.71 | 554.63 |
| 1993D | | | | |
| Min. RPT rates; min. LBT/other tax rates; 50% increase in schedule of values | | | | |
| Real Property Tax | | | | |
| Basic | 9646.44 | 2365.76 | 1329.22 | 52.31 |
| SEF | 1132.97 | 230.30 | 31.41 | 40.65 |
| Total | 10779.41 | 2596.06 | 1360.63 | 92.96 |
| License and Business Tax | 0.00 | 0.00 | 4167.86 | 69.53 |

Table 15 (continued)

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|---------------------------------|----------------------------------|------------------------------------|--------------------------------------|--|
| Other Taxes, Fees and Charges | 1793.74 | 263.99 | 723.31 | 79.78 |
| Income from Business Enterprise | 480.73 | 2596.99 | 29344.92 | 298.11 |
| Other Income | 10496.61 | 4422.90 | 43.55 | 38.93 |
| Total | 23550.49 | 9879.94 | 35640.27 | 579.31 |
| Total less SEF | 22417.52 | 9649.64 | 35608.86 | 538.66 |

1993E

1/2% basic RPT; 1% SEF; min. LBT/other tax rates;
100% increase in schedule of values

| | | | | |
|---------------------------------|-----------------|-----------------|-----------------|---------------|
| Real Property Tax | | | | |
| Basic | 11993.00 | 2956.01 | 1735.07 | 68.28 |
| SEF | 9254.74 | 2312.17 | 953.79 | 200.38 |
| Total | 21247.74 | 5268.18 | 2688.86 | 268.66 |
| License and Business Tax | 0.00 | 0.00 | 4167.86 | 69.53 |
| Other Taxes, Fees and Charges | 1793.74 | 263.99 | 723.31 | 79.78 |
| Income from Business Enterprise | 480.73 | 2596.99 | 29344.92 | 298.11 |
| Other Income | 10496.61 | 4422.90 | 43.55 | 38.93 |
| Total | 34018.82 | 12552.06 | 36968.50 | 755.01 |
| Total less SEF | 24764.08 | 10239.89 | 36014.71 | 554.63 |

Table 15 (continued)

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|--|----------------------------------|------------------------------------|--------------------------------------|--|
| 1993F | | | | |
| 1½% basic RPT; 1% SEF; min. LBT/other tax rates; 50% increase in schedule of values | | | | |
| Real Property Tax | | | | |
| Basic | 9646.44 | 2365.76 | 1329.22 | 52.31 |
| SEF | 7224.30 | 1791.70 | 723.20 | 160.45 |
| Total | 16870.74 | 4157.46 | 2052.42 | 212.76 |
| License and Business Tax | 0.00 | 0.00 | 4167.86 | 69.53 |
| Other Taxes, Fees and Charges | 1793.74 | 263.99 | 723.31 | 79.78 |
| Income from Business Enterprise | 480.73 | 2596.99 | 29344.92 | 298.11 |
| Other Income | 10496.61 | 4422.90 | 43.55 | 38.93 |
| Total | 29641.82 | 11441.34 | 36332.06 | 699.11 |
| Total less SEF | 22417.52 | 9649.64 | 35608.86 | 538.66 |
| 1993G | | | | |
| Max. RPT rates; min. LBT/other tax rates; 100% increase in schedule of values | | | | |
| Real Property Tax | | | | |
| Basic | 21379.22 | 5317.01 | 3358.47 | 132.18 |
| SEF | 9254.74 | 2312.17 | 953.79 | 200.38 |
| Total | 30633.96 | 7629.18 | 4312.26 | 332.56 |
| License and Business Tax | 0.00 | 0.00 | 4167.86 | 69.53 |

Table 15 (continued)

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|---|----------------------------------|------------------------------------|--------------------------------------|--|
| Other Taxes, Fees and Charges | 1793.74 | 263.99 | 723.31 | 79.78 |
| Income from Business Enterprise | 480.73 | 2596.99 | 29344.92 | 298.11 |
| Other Income | 10496.61 | 4422.90 | 43.55 | 38.93 |
| Total | 43405.04 | 14913.06 | 38591.90 | 818.91 |
| Total less SEF | 34150.30 | 12600.89 | 37638.11 | 618.53 |
| 1993H | | | | |
| Max. RPT rates; min. LBT/other tax rates; 50% increase in schedule of values | | | | |
| Real Property Tax | | | | |
| Basic | 16686.11 | 4136.51 | 2546.77 | 100.23 |
| SEF | 7224.30 | 1791.70 | 723.20 | 160.45 |
| Total | 23910.41 | 5928.21 | 3269.97 | 260.68 |
| License and Business Tax | 0.00 | 0.00 | 4167.86 | 69.53 |
| Other Taxes, Fees and Charges | 1793.74 | 263.99 | 723.31 | 79.78 |
| Income from Business Enterprise | 480.73 | 2596.99 | 29344.92 | 298.11 |
| Other Income | 10496.61 | 4422.90 | 43.55 | 38.93 |
| Total | 36681.49 | 13212.09 | 37549.61 | 747.03 |
| Total less SEF | 29457.19 | 11420.39 | 36826.41 | 586.58 |

Table 15 (continued)

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|------------------------------------|----------------------------------|------------------------------------|--------------------------------------|--|
| Percentage Change | | | | |
| 1993A/1992 | | | | |
| Real Property Tax | | | | |
| Basic | 16.88 | 29.34 | 66.53 | 64.59 |
| SEF | 200.47 | 235.67 | 70.36 | 46.43 |
| Total | 43.34 | 58.95 | 67.36 | 53.15 |
| License and Business Tax | | | 35.60 | 64.98 |
| Other Taxes, Fees and Charges | 103.48 | 31.41 | 374.11 | 223.45 |
| Income from Business Enterprise | 34.40 | 34.40 | 34.40 | 34.40 |
| Other Income | 20.00 | 20.00 | 20.00 | 20.00 |
| Total | 42.31 | 39.92 | 41.49 | 59.80 |
| Total less SEF | 26.26 | 27.34 | 40.99 | 63.48 |
| 1993B/1992 | | | | |
| Real Property Tax | | | | |
| Basic | -8.78 | 0.62 | 26.28 | 24.80 |
| SEF | 134.55 | 160.11 | 29.18 | 17.25 |
| Total | 11.88 | 23.51 | 26.91 | 20.05 |
| License and Business Tax | | | 35.60 | 64.98 |
| Other Taxes, Fees and Charges | 103.48 | 31.41 | 374.11 | 223.45 |
| Income from Business Enterprise | 34.40 | 34.40 | 34.40 | 34.40 |
| Other Income | 20.00 | 20.00 | 20.00 | 20.00 |

Table 15 (continued)

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|------------------------------------|---|---|---|---|
| Total | 22.20 | 25.01 | 38.33 | 48.45 |
| Total less SEF | 10.80 | 16.33 | 38.48 | 57.05 |
| 1993C/1992 | | | | |
| Real Property Tax | | | | |
| Basic | -34.43 | -28.09 | -13.97 | -14.98 |
| SEF | -63.22 | -66.57 | -94.39 | -70.29 |
| Total | -38.58 | -33.61 | -31.44 | -49.84 |
| License and Business Tax | | | 13.00 | 13.00 |
| Other Taxes, Fees and Charges | -37.83 | -56.61 | 69.82 | 42.26 |
| Income from Business Enterprise | 12.00 | 12.00 | 12.00 | 12.00 |
| Other Income | 20.00 | 20.00 | 20.00 | 20.00 |
| Total | -22.54 | -8.26 | 9.47 | -6.01 |
| Total less SEF | -18.41 | -4.51 | 11.27 | 11.70 |
| 1993D/1992 | | | | |
| Real Property Tax | | | | |
| Basic | -47.26 | -42.45 | -34.09 | -34.86 |
| SEF | -63.22 | -66.57 | -94.39 | -70.29 |
| Total | -49.56 | -45.91 | -47.19 | -57.19 |
| License and Business Tax | | | 13.00 | 13.00 |
| Other Taxes, Fees and Charges | -37.83 | -56.61 | 69.82 | 42.26 |

Table 15 (continued)

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|---------------------------------|----------------------------------|------------------------------------|--------------------------------------|--|
| Income from Business Enterprise | 12.00 | 12.00 | 12.00 | 12.00 |
| Other Income | 20.00 | 20.00 | 20.00 | 20.00 |
| Total | -29.56 | -13.43 | 8.24 | -8.54 |
| Total less SEF | -26.14 | -10.02 | 10.01 | 8.48 |
| 1993E/1992 | | | | |
| Real Property Tax | | | | |
| Basic | -34.43 | -28.09 | -13.97 | -14.98 |
| SEF | 200.47 | 235.67 | 70.36 | 46.43 |
| Total | -0.58 | 9.76 | 4.36 | 23.72 |
| License and Business Tax | | | 13.00 | 13.00 |
| Other Taxes, Fees and Charges | -37.83 | -56.61 | 69.82 | 42.26 |
| Income from Business Enterprise | 12.00 | 12.00 | 12.00 | 12.00 |
| Other Income | 20.00 | 20.00 | 20.00 | 20.00 |
| Total | 1.75 | 9.98 | 12.27 | 19.20 |
| Total less SEF | -18.41 | -4.51 | 11.27 | 11.70 |
| 1993F/1992 | | | | |
| Real Property Tax | | | | |
| Basic | -47.26 | -42.45 | -34.09 | -34.86 |
| SEF | 134.55 | 160.11 | 29.18 | 17.25 |
| Total | -21.06 | -13.38 | -20.34 | -2.02 |

Table 15 (continued)

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|------------------------------------|----------------------------------|------------------------------------|--------------------------------------|--|
| License and Business Tax | | | | |
| Other Taxes, Fees and Charges | -37.83 | -56.61 | 69.82 | 42.26 |
| Income from Business Enterprise | 12.00 | 12.00 | 12.00 | 12.00 |
| Other Income | 20.00 | 20.00 | 20.00 | 20.00 |
| Total | -11.34 | 0.25 | 10.34 | 10.38 |
| Total less SEF | -26.14 | -10.02 | 10.01 | 8.48 |
| 1993G/1992 | | | | |
| Real Property Tax | | | | |
| Basic | 16.88 | 29.34 | 66.53 | 64.59 |
| SEF | 200.47 | 235.67 | 70.36 | 46.43 |
| Total | 43.34 | 58.95 | 67.36 | 53.15 |
| License and Business Tax | | | 13.00 | 13.00 |
| Other Taxes, Fees and Charges | -37.83 | -56.61 | 69.82 | 42.26 |
| Income from Business Enterprise | 12.00 | 12.00 | 12.00 | 12.00 |
| Other Income | 20.00 | 20.00 | 20.00 | 20.00 |
| Total | 29.83 | 30.67 | 17.20 | 29.29 |
| Total less SEF | 12.51 | 17.50 | 16.28 | 24.57 |

Table 15 (continued)

| Levels (P1000) | Urban/ Industrial Province | Rural/ Agricultural Province | Urban/ Industrial Municipality | Rural/ Agricultural Municipality |
|------------------------------------|----------------------------------|------------------------------------|--------------------------------------|--|
| 1993H/1992 | | | | |
| Real Property Tax | | | | |
| Basic | -8.78 | 0.62 | 26.28 | 24.80 |
| SEF | 134.55 | 160.11 | 29.18 | 17.25 |
| Total | 11.88 | 23.51 | 26.91 | 20.05 |
| License and Business Tax | | | 13.00 | 13.00 |
| Other Taxes, Fees and Charges | -37.83 | -56.61 | 69.82 | 42.26 |
| Income from Business Enterprise | 12.00 | 12.00 | 12.00 | 12.00 |
| Other Income | 20.00 | 20.00 | 20.00 | 20.00 |
| Total | 9.72 | 15.77 | 14.04 | 17.95 |
| Total less SEF | -2.95 | 6.50 | 13.77 | 18.14 |